

LEGISLATIVE AND OVERSIGHT ISSUES RELATING TO THE VA HOME LOAN GUARANTY PROGRAM

HEARING

BEFORE THE

COMMITTEE ON VETERANS' AFFAIRS UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

FIRST SESSION

ON

S. 9, S. 920, and H. Con. Res. 79

JUNE 17, 1987

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LEGISLATIVE AND OVERSIGHT ISSUES RELATING TO THE VA HOME LOAN GUARANTY PROGRAM

WEDNESDAY, JUNE 17, 1987

U.S. SENATE,
COMMITTEE ON VETERANS' AFFAIRS,
Washington, DC.

The committee met, pursuant to notice, at 10:05 a.m., in room SR-418, Russell Senate Office Building, Hon. Alan Cranston (chairman of the committee) presiding.

Present: Senators Cranston, Graham, Murkowski, Simpson, and Thurmond.

OPENING STATEMENT OF CHAIRMAN CRANSTON

Chairman CRANSTON. Good morning. Welcome to this morning's oversight and legislative hearing on the VA Loan Guaranty Program. We are very grateful to all of our witnesses for providing us with your views on the issues today on S. 9, S. 920, and H. Con. Res. 79. In addition, we look forward to your testimony on three general aspects of the Home Loan Guaranty Program: First, program-wide issues and proposals; second, assistance to veterans participating in the program, including ways to reduce the default rate on VA guaranteed loans; and third, minimization of VA property-acquisition costs and improvements in the VA's marketing and disposition of foreclosed properties.

I want to express my great appreciation to my committee colleague and good friend, Senator Bob Graham, for agreeing to take over the Chair for the hearing today. Due to other commitments, I regret I will be unable to remain with him, but I am confident that the important work of our committee will be left in very capable hands.

I have a written statement which will be available on the press table, and I will touch on some of the highlights rather briefly. I believe that the Loan Guaranty Program should be viewed as a benefits program and not be expected to be fully self-supporting. Since 1944, the program has guaranteed loans totaling more than \$270 billion, helping more than 12 million veterans to purchase homes. Over the years, the program has been largely self-sustaining; but as a result of the recent downturn in certain areas of the economy, the rate of default on home loans, including those guaranteed by the VA, has substantially increased, thereby substantially increasing the cost of the Loan Guaranty Program.

Under these circumstances, it is appropriate to take a closer look to determine the reasons for the increase and to take steps to minimize program costs. However, that does not mean changing the fundamental nature of the Loan Guaranty Program, either by drastically curtailing it or insisting that it must be paid for in full by those seeking to use it.

As the author of S. 9, I will, of course, be very interested in the witnesses' views on this measure, which proposes an increase of the maximum VA loan guaranty from \$27,500 to \$36,000. This 31-percent increase—the first percentage increase in the existing home median purchase price since 1980—would help ensure that the value of the VA home loan guaranty keeps pace with increases in the housing market. S. 9 would also exempt the VA Home Loan Program from sequestration under Gramm-Rudman.

All witnesses today support this exemption except for the Administration. My full statement explains the need for this exemption in detail.

I want to outline this morning the legislative initiative I am working on with Senator Murkowski. This initiative will be designed to make refinancing of VA loans at lower interest rates available to any veteran who had occupied the home in question; to reduce defaults by limiting refinancing to 90 percent of appraised property value when the purpose of refinancing is to obtain cash equity payments; and to require approval of the creditworthiness of the buyer whenever a VA guaranteed loan is assumed and generally provide for the original veteran to be released from liability upon such an assumption.

We are also investigating whether it would make sense to eliminate the provision limiting the term of a loan refinancing a VA guaranteed loan to the term of the original loan.

Under current law, a veteran may refinance a VA guaranteed loan for the purpose of reducing the interest rate only if, at the time of refinancing, he or she occupies the home securing the loan. Active-duty military and foreign service personnel who frequently will be transferred several times throughout the course of their careers thus may be unable to take advantage of a drop in interest rates, even if their families still live in the home.

The same is true for many other veterans who may be subject to transfer by their employers or who must move for other reasons. Restricting refinancing in such cases is detrimental not only to the individual veteran who, because he or she cannot refinance a loan, must make higher mortgage payments, but to the Loan Guaranty Program as a whole, which is likely to experience a greater number of defaults on VA guaranteed loans as a result.

Our proposal also would provide that all assumptions of VA guaranteed loans made after the date of enactment be subject to approval of the buyer's creditworthiness on the same basis as the original borrower currently is required to be approved and that, in the case of such an assumption, the veteran generally would be automatically relieved from liability.

I would also like to comment briefly on the Administration's proposal to sell without recourse \$900 million of loan assets from the loan portfolio over the next 3 years. In the committee's unanimous February report to the Budget Committee, we indicated that the

proposed sale appeared to be neither viable nor wise as a long-term strategy for managing the Loan Guaranty Program.

I believe that the Administration's proposal is nothing more than an attempt to provide quick cash to achieve temporary budget deficit reduction at the expense of the Home Loan Program and our veterans who benefit from it. As the VA's aborted sale in May indicates, the VA likely will have to greatly discount these loans in order to sell them without recourse, so that any revenues achieved through such sales will likely be much less than they would have been if the loans had been sold with recourse. It thus may ultimately be necessary to pursue legislation to prevent such losses to the Loan Guaranty Program by limiting the quantity of vendee loans which may be sold without recourse in any year.

I would like to make a few general announcements. First, we will hold a hearing a week from today on AIDS in the VA. This is a very important and time-urgent issue. In addition to the issue of AIDS testing and the funding of VA medical centers treating large numbers of AIDS patients, we will be exploring how the VA can implement an effective and comprehensive education and prevention program for its patients and their families.

Second, as I indicated at our May 21 hearing, we are developing beneficiary travel legislation. We have made substantial progress, and Senator Murkowski and I hope to introduce that bill by early next week. Generally, it would restore beneficiary travel payments for all those eligible before the VA's April 13 regulations took effect, subject to a \$7.50 round trip deductible. No deductible would be paid for certain special-mode trips or for compensation and pension exam travel directed by the VA. Interfacility transfers would remain unaffected.

Third, Senator Murkowski and I have also been working on legislation to improve VA compliance with its health-care quality assurance regulations and guidelines. We have prepared companion bills which we will introduce this week to provide for expanded monitoring of and reporting to the Congress by the Inspector General of the VA on the Department of Medicine and Surgery's quality assurance programs, and to establish within DM&S a Medical Inspector General with adequate tenure and staffing, and a clear charge of responsibility to be able to make independent investigations and reviews of instances where there is a breakdown in the quality of VA care.

Finally, let me reiterate the rest of our schedule over the next month. On Tuesday, June 30, we have a hearing on VA compensation, radiation exposure benefits, and related issues. And our markup for all health-care and benefits legislation is scheduled for July 16.

Before I close, I particularly want to welcome Keith Pedigo as the new Director of the Loan Guaranty Service. I congratulate you, Keith, and look forward to working closely with you in your new capacity, as the committee did with your predecessor, Bob O'Toole.

There are obviously a great number of issues to be discussed today. The committee is very interested in the ideas and views of those appearing today, as well as those who have submitted written testimony.

Before concluding, I do want to express my unhappiness with the Administration's lack of cooperation with the committee in connection with this hearing. First, on June 10, we sent two prehearing questions to the agency to which we have received no response. Second, we received the VA's testimony late yesterday afternoon, not 48 hours in advance as our committee rules provide. All of the other witnesses this morning complied with the rules.

I think I have been very forthcoming with my praise and expressions of gratitude to the Administration when we have, in connection with several prior hearings, received from the VA excellent and timely responses to prehearing questions and timely advance submission of testimony. That is not the case with respect to today's hearing; and in fairness to our other witnesses and to this committee's processes, I feel I must take a strong position on the matter.

I realize that there are clearance processes both within and outside the VA, but that is a fact of life and does not excuse what has occurred. The VA testified on nearly identical subjects before the House committee over a month ago, and this hearing date and subject matter were announced many weeks ago. So, there was more than ample opportunity for timely action by the VA.

In order to try to create a positive incentive for compliance with committee rules, I want the VA to be on notice that, if we do not have VA testimony 48 hours before a hearing, I will remove all Administration bills from the committee's agenda. For example, at the June 30 hearing, we are requesting testimony on four Administration bills. I have tried to be fully cooperative with the Administration in introducing, by request, nearly all of its proposed legislation and listing it for committee hearings. But I do not intend to continue to extend this courtesy if it is not reciprocated. So, let me be explicit.

I expect to receive next Monday morning the VA's testimony for next week's June 24 hearing and the following Friday morning, June 26, the VA's testimony for the June 30 hearing.

Before I leave, I want to welcome Jennie Stabile from California, who is representing the National Association of Realtors this morning. We will be following your testimony closely, Jennie, and I will be submitting written followup questions.

Now, I would recognize the Senator from Alaska, but I can't because he is not here. He has done yeoman work in this field. I would like to yield the chair to Senator Bob Graham, with my thanks again very much, Bob, for your help this morning. I am most grateful to you.

[The prepared statement of Chairman Cranston appears on p. 83.]

OPENING STATEMENT OF SENATOR GRAHAM

Senator GRAHAM. Good morning. I am pleased to accept the request of Chairman Alan Cranston to chair this legislative oversight hearing. I am going to be submitting for the record the full text of my opening remarks in order to expedite the hearing and to proceed with the very distinguished Americans who have agreed to participate in this hearing. I would summarize it by saying that

personally I have had a long-term interest in the issues of this hearing, which extend over my private experience as a home builder in Florida for over 30 years, which included experience with both the VA and the FHA housing programs and more recently my public experience as Governor of Florida, in which we had as a major emphasis of State policy the expansion of housing opportunities for our growing population.

Today, we will be hearing a number of proposals that impact on housing opportunities for American veterans. I am pleased to have joined with the Chairman and other members of this committee in cosponsoring S. 9, which will have as its goal to maintain the value of veterans' housing opportunities in the face of inflation and also to protect the Home Loan Program from sequestration under the Gramm-Rudman Act, which would otherwise result unfairly in denial of benefits for many American veterans.

We will also be hearing testimony on the legislative initiative which Senator Cranston has just referred to, which I am also supporting. This initiative would allow more veterans the benefit of refinancing VA guaranteed loans at lower interest rates while adding safeguards to prevent defaults due to over-refinancing for the purpose of obtaining cash via equity in property.

We also have on the agenda today S. 920, an Administration bill which has been introduced. The increase in default and foreclosure rates on VA guaranteed loans in recent years demand that we take a hard look at the Home Loan Program to ensure that it remains viable and able to provide benefits to all veterans who are entitled to qualify for them.

There are a number of related questions which will be raised, including the issue of the sale of VA assets. The recent experience which the Chairman alluded to raises questions as to the viability of those sales without recourse, the adequacy of staffing of VA regional offices, the increase in default rates, along with the tremendous rise in loan originating refinancing applications due to falling interest rates have stretched the workload capacity of regional offices to—if not beyond—their limits.

Staffing shortages can cause and have caused delays in processing loan applications which result in the veteran losing the home he or she had intended to buy. Another general area we will be discussing today includes assistance to veterans and ways to reduce the default and foreclosure rate.

Finally, we will be examining ways to minimize the VA's property acquisition and disposition costs and improvement in the VA's marketing of the foreclosed properties, which it does acquire. The Home Loan Program has helped over 12 million veterans and their families achieve one of America's greatest dreams—owning one's own home. I am delighted to have the chance as a member of this committee to work on the important issues we will be addressing today in order to evaluate and make needed improvements in this program.

We have a lot of ground to cover this morning. I look forward to hearing from each of our witnesses and to working together with them and the Chairman and other members of the committee in the development of legislation to improve and protect the Loan

Guaranty Program. The full text of these remarks will be submitted for the record.

Senator Murkowski is in transit. We will commence the hearing, and when he arrives, he will have an opportunity to make his opening statement.

Before proceeding, I would note that, since we have many witnesses today, I must ask that each witness limit his or her oral testimony to 5 minutes so that we will have sufficient time for questions. We will be using the lights here this morning, the red and the green lights. When you see the red light, your 5 minutes have expired. I would greatly appreciate everyone's cooperation in observing this limit. Of course, each witness' prepared statement will be printed in full in the record of this hearing.

The first panel has, representing the Veterans' Administration, Mr. R.J. Vogel, Chief Benefits Director, Veterans' Administration, who is accompanied by Mr. Keith Pedigo, Director of the Loan Guaranty Service of the Veterans' Administration. They are also accompanied by Mr. James Kane of the Office of the General Counsel of the Veterans' Administration. Mr. Vogel?

[The prepared statement of Senator Graham appears on p. 92.]

STATEMENT OF R.J. VOGEL, CHIEF BENEFITS DIRECTOR, VETERANS' ADMINISTRATION, ACCOMPANIED BY KEITH PEDIGO, DIRECTOR, LOAN GUARANTY SERVICE; AND JAMES P. KANE, OFFICE OF THE GENERAL COUNSEL

Mr. VOGEL. Thank you, Senator Graham. I have a summary statement of the entire statement I would like to read now since the entire statement will be placed in the record.

It is a pleasure to appear before you this morning to discuss the operation of the VA's housing program. As you indicated, Senator Graham, 12 million veterans have achieved home ownership through the Loan Guaranty Program. In March of this year, the Deputy Administrator of Veterans' Affairs, Tom Harvey, presented the keys to a 29-year-old Army veteran as he and his wife and family acquired their first home under the VA guaranty program.

In order to keep my testimony within the allotted time, I will limit it to a discussion of the proposals currently pending before the committee which pertain to veterans' housing benefits. Two provisions of S. 9, the Service-Disabled Veterans' Benefits Improvement Act of 1987, relate to housing loans. Section 6 would increase the VA home loan guaranty from \$27,500 to \$36,000. We believe that an increase in the guaranty is not necessary at this time. The average VA loan amount in fiscal year 1986 was \$70,900. The present law provides a 38¾ percent guaranty on the average loan which is well in excess of the 25 percent coverage required in the secondary market.

Therefore, we oppose increasing the guaranty amount.

Section 8 would exempt a number of VA programs from sequestration under Gramm-Rudman. The Administration is committed to reducing the Federal deficit. We oppose this exemption to the Gramm-Rudman-Hollings Act.

The second measure, Mr. Chairman, is S. 920, the Veterans' Housing Amendments Act of 1987. This bill, which is an important

part of the Administration's legislative program, would make a number of amendments to the VA Loan Guaranty Program to reduce administrative regulation and enhance revenues. Section 2 would repeal the authority of the Administrator to set the maximum interest rates.

Under the bill, the veteran buyer, the seller, and the lender can negotiate on whether the rate, and thus the monthly payment, can be lowered in exchange for a certain number of points; and if it is, who will pay some or all of such points? The transaction then can be tailored to fit the needs and circumstances of the parties involved.

That proposal would advance the Administration's goal of reducing Federal regulation and permitting market forces to operate. Section 3 would increase the VA loan fee from 1 to 2½ percent, effective on June 1, and make collection of the fee permanent, which is presently set to expire on September 30 of this year.

Since 1978, the Loan Guaranty Revolving Fund has required \$2.2 billion in additional funds through transfers or appropriations in order to remain solvent. If the fee remains at 1 percent, we project that an appropriation of approximately \$389 million will be needed in fiscal year 1988. If the 2½ percent is enacted, an appropriation in fiscal year 1988 will probably not be necessary.

Because of the higher than anticipated levels of claims this year, it is essential that our appropriation request for fiscal year 1988, in the absence of a fee increase, be enacted. We will likely carry a smaller unobligated balance into the new fiscal year, and we may experience claims higher than currently projected.

Section 4 is a technical amendment which would authorize direct appropriations to the Loan Guaranty Revolving Fund. The current two-step appropriation procedure, in which an appropriation to the readjustment benefits account, then transfer of the funds into the Revolving Fund, is unnecessarily complicated and tends to obscure the real financial requirements of operating the program.

Section 5 would repeal certain requirements of the manufactured housing program. This section would delete the requirement that VA standards for manufactured home sites encourage that such sites be free from adverse scenic or environmental conditions. Our standards only serve to duplicate existing State and local requirements and complicate the application process.

We would also repeal the requirement that VA inspect the manufacturing processes and conduct onsite inspections of units purchased with VA financing. It would further provide that any manufactured home that displays a certificate of conformity with Federal manufactured home standards would be eligible for purchase with a VA guaranteed loan.

We believe that the standards now in place are sufficient to ensure that new manufactured homes purchased by veterans will be properly built and suitable for occupancy and use. VA inspections, we feel, are unnecessary.

I notice that the red light is on, Senator Graham.

Senator GRAHAM. Mr. Vogel, if you would like 2 additional minutes to conclude?

Mr. VOGEL. All right. I will speak rapidly. In addition, S. 920 proposes one technical amendment. Engaging in actions unfair or prej-

udicial to veterans or the Government would be added as a basis for suspending a manufacturer of manufactured homes from participation in the VA program. We believe that technical correction is desirable. Section 6 would repeal the requirement for a statement of local officials regarding the feasibility of public or community water and sewerage systems as a condition to the VA guaranty of loans for the purchase of newly constructed homes. We believe that local, State, and Federal laws adequately address that subject.

Section 7 would specifically authorize the Administrator to establish an appraisal system whereby appraisal reports completed by VA designated fee appraisers would be received and reviewed by approved lenders without VA staff involvement. That could speed up the process of loan applications, and we would effectively perform program surveillance in view of staffing constraints.

Section 8 would eliminate the October 1, 1987 sunset for the claim payment and acquired properties provisions found in section 1816 of title 38, United States Code. Under section 1816(d), we are required to sell 60 percent, but not more than 75 percent, of acquired property with vendee financing. S. 920 would also reduce these limits so that the VA must sell at least 40 percent, but not more than 60 percent, of acquired properties with vendee financing. Experience shows that these procedures have worked well.

Accordingly, Mr. Chairman, the VA urges enactment of S. 920. That concludes my testimony. I would be pleased to answer any questions that you or other members of the committee may have.

Senator GRAHAM. Thank you very much, Mr. Vogel. Other members of the committee who are not here and may not be able to participate today have indicated that they will be submitting questions in writing for subsequent response.

[The prepared statement of Mr. Vogel appears on p. 102.]

Senator GRAHAM. In your comments relative to the increase in the loan guaranty amount, you indicated that you felt that that was not necessary based on your current experience. Could you review the economics of the current level of loan guaranty that leads you to that conclusion?

Mr. VOGEL. I would be pleased to, Mr. Chairman. There is sufficient guaranty so that the average loan can be placed in the secondary market with the required 25 percent guaranty amount. Therefore, we feel that it is unnecessary at this time to raise the guaranty amount. Mr. Pedigo may want to elaborate on that.

Mr. PEDIGO. Senator Graham, in addition to what Mr. Vogel said, he spoke as to the average VA loan. We also have determined that even in high cost areas such as Los Angeles, where in 1986 the average loan was approximately \$94,000, that a lender still gets more than the 25 percent coverage that they need in order to sell that loan in the secondary market. So, in view of that data, we believe that it is not necessary to increase the guaranty at this point in time.

Senator GRAHAM. I would like at this time to ask Senator Murkowski, the ranking minority member of the committee, if he has an opening statement and any questions to Mr. Vogel.

OPENING STATEMENT OF SENATOR MURKOWSKI

Senator MURKOWSKI. Thank you very much, Mr. Chairman. I appreciate your accommodating me. I wish everyone here a good morning. I have just come from the Select Committee on Indian Affairs, and I must depart for the Select Committee on Intelligence very shortly. So, I do appreciate the accommodation. I want to welcome my colleague from Florida as he chairs this committee on behalf of the Chairman, Senator Cranston.

I certainly place, as do the veterans of America, heavy emphasis on the Home Loan Guaranty Program. This program was the subject of a number of discussions when I was Chairman of this committee. I am certainly pleased that Senator Cranston has continued to place a high priority on the program, and we have been working closely and constructively in developing legislation which we hope will improve the program. We certainly continue to work together in the 100th Congress. Currently, we are jointly developing legislation to address aspects of this program as well as medical care quality assurance issues.

I think the hearing today is particularly appropriate because the Home Loan Guaranty Program is so important to the Nation's veterans. The program is a mechanism for veterans to realize a dream of every American, and that is to own his or her own home.

I think the importance of the VA Home Loan Program to the economy of the Nation, the homebuilders, the real estate industry, and the finance industry is a secondary benefit. It is important for the taxpayers because in recent years we have seen the need for frequent infusions of money into the Loan Guaranty Program to keep the program operating. As a matter of fact, I understand \$2.2 billion have been added to the Loan Guaranty Revolving Fund since 1978. I gather this is basically a supplemental type infusion necessary to keep the Revolving Loan Fund alive.

So, one can quickly come to the conclusion that something must be askew somewhere. Perhaps the points that are withheld are insufficient or VA's operating procedures are unsatisfactory to reduce losses to the Revolving Fund and keep it operating. I know we are mixing apples and oranges here, but we have got an appropriation on one side and the Revolving Fund on the other. The Congress has appropriated funds for the Revolving Fund to keep the program operating, but we still seem to have inadequate funds in the reserve. The question of whether we should appropriate a specific amount to the Revolving Fund or increase income from sources such as points has always been a matter of concern.

The committee faces the question of what should be done now. I think the VA Home Loan Guaranty Program has two basic component parts. The primary component is the basic benefit program. As a guarantor of loans made to veterans by private lenders, the VA plays a secondary role in the operation of this component. The VA exercises general supervision and assesses much of the risk of the business decisions made by others but does not directly make the day-to-day decisions of program operation.

Decisions to buy or sell a home, establish the price, underwrite the loan, or foreclose on a defaulted loan are made, for the most part, by private sector participants in the program, the veterans,

realtors, and bankers. These decisions are made by individuals or institutions whose profits and losses are tied in part to the housing industry. I have had some experience in this area, and I have deep respect for those who are required to handle the mechanism for the efficient allocation of resources in a free market economy, with profit and loss linked to the risk involved in any loan program.

Accordingly, effective reform must address factors such as real value in the appraisal; or loan underwriting policies to establish the level of risk and establish the necessary reserves to cover those risks.

In an ideal world, we would need to look no further than the basic veterans' benefit program in considering possible improvements. However, we do not live in an ideal world in the sense that loans are not always what they appear to be on the surface when they are made. Some are defaulted. The VA, rather than paying the guaranty to the lender, takes possession of homes in 81 percent of foreclosures, which is my understanding of what the figure is. Currently over 21,000 homes, I believe, are in the VA inventory. The cost of a default to the taxpayer and the lender in the principal amount of the loan, the accrued debt, forecloser cost, carrying costs, and resale costs are obviously substantial.

Therefore, the real world requires that we take a look at that portion of the housing program dealing with the procedures the VA has for homes it has acquired as the result of foreclosures. The procedures by which the VA must decide which homes it will take into its inventory, how it will maintain and market them, and to whom and under which terms it will sell them. In these cases the VA acts as a seller, lender, guarantor, and is the primary participant in the sense that it basically covers all aspects of the status of the loan once it is in default as well. Proposals for reform in this area have been discussed from time to time since the program began in 1944.

The Veterans' Home Loan Guaranty Program has been a very significant one. I gather that over 12 million VA guaranteed loans have been made since that time. And I think the future success of this program depends on the congressional willingness to address the issue of assumptions. I want to commend you, John, as Chief Benefits Director of the VA. I think your management team has taken the initiatives that are necessary. I know that you feel that there are additional improvements that you can make. I have always felt, John, that getting VA foreclosed homes back on the market would be in the best interests of the VA. I think that there is sometimes an effort to try and make a recovery by holding out perhaps longer than is really wise trying to recover the highest price, but the additional costs incurred by that delay oftentimes offset any gain; and you don't make the recovery that you could if you kept the homes moving on the market.

[The prepared statement of Senator Murkowski appears on p. 95.]

Senator MURKOWSKI. One question I have, John, is on the situation created by VA acquisition of homes securing VA guaranteed loans. We have got a report here on the Houston difficulties, where you testified that sales require substantial price reductions, increased public advertising, increased broker sales commissions, increased VA personnel resources and contract money, auctions to

sell older properties; yet you continue to acquire the properties in, I am told, about 75 percent of foreclosures in Houston.

First of all: Why do you continue to acquire properties there? Does the record support your assertion that acquisition is in the best interests of the Government? How do you factor in the increased marketing costs and reduced sales prices you describe as unique to "energy belt" areas like Houston when determining if acquisition is to the Government's advantage? In the second quarter of 1986, you acquired 87 percent of the foreclosed properties. How many remain unsold a year later? Of those sold, how many were sold at losses exceeding \$27,500? That is the guaranty amount.

You seem to have an inconsistency in various parts of the country. In some parts, you are picking them up, and in others you are not. What are the criteria for determining when VA will acquire the property? Everybody would like to have you pick them all up, but you don't do it.

Mr. VOGEL. Senator Murkowski, we don't pick them all up. The formula used in deciding whether or not to "no bid the property," to use the jargon, is applied. In fact, the incidence of our paying the claim and not acquiring the property can run higher—and does in fact run higher—in the "energy belt" area. It is not only that area. I could also add that it is high in the agricultural areas of the country, and it is rather high in your home State, Senator Murkowski—in Alaska.

Senator MURKOWSKI. In my home State, you are not picking them up. You are paying off the guaranty, and that is it. I can cite that. I am just curious to know why in some areas you pick up the house and in the other you just pay off the guaranty and leave it?

Mr. VOGEL. Senator Murkowski, I think Mr. Pedigo could address that in more detail than I am able to.

Mr. PEDIGO. Yes. As Mr. Vogel mentioned, in making a decision as to whether or not we will take the property back or simply pay the claim, we apply the formula that is contained in the Deficit Reduction Act. And we are not permitted to deviate from that formula.

Senator MURKOWSKI. What is that formula?

Mr. PEDIGO. The formula essentially says that we will obtain an appraisal on the property; and after determining the market value, we will deduct from that market value the costs of acquiring, managing, and disposing of that property and to come up with a net value. We then compare the net value to the unguaranteed portion of the loan and make the determination as to whether or not we should acquire the property. So, the formula is very specific.

And the reason that we continue to acquire properties in areas like Houston is that, after applying that formula, there is still a substantial percentage of properties, and this fiscal year it is running about 70 percent, where it still is cost-effective for us to acquire that property in an attempt to recover some of the costs that we have had to pay.

Senator MURKOWSKI. I guess my concern is the adequacy of the appraisal. You put emphasis on the formula, but the formula is of little consequence if the appraisal doesn't hold up. The appraisal theoretically represents the market. I don't know what your experi-

ence is realistically in Houston, but we are aware that the Houston problems have been around for a long time.

VA foreclosures in the Houston area are increasing, I believe they are at a very high level. What has been your experience in trying to dispose of those units? How long have you had to hold those units? That is information that I think is significant and noteworthy in reflecting on whether your policies of purchasing back the home in the hopes that you can hold it long enough to resell it to recover your costs is really working; or whether you would have been better off to move those things for what you could get at any given time, or pay off the financial institution and let them do it.

Gentlemen, in all fairness, I think we have bandied this back and forth for the last couple of years; and I am not satisfied that we have reached the most efficient method. I have always felt that the VA would be better off ultimately to let the private sector dispose of the properties; for VA to take its losses and get out, but you seem to want to continue.

Obviously, you have an overhead built in. You have a VA staff; you have to have something to do in this regard. But I think you would be better off encouraging the local real estate industry to take over, take your losses, and reduce the personnel that you have associated with this function.

You can still provide the benefits you are designed to provide; and that is the VA guaranty program.

Mr. VOGEL. I think what you have set forth, Senator Murkowski, is the competing interests across the board. The answer is not terribly clear. No bids are higher in Oklahoma and in Texas. However, in other places, they are comparatively low or they virutally don't exist. We do, in fact, acquire the property and sell it at a premium in some areas. When making the determination to no bid and turn the property over to lenders the calculation is based on the formula set forth in the law.

The general belief when we make these decisions is that we can, in fact, market those properties. We sometimes hold properties for a long time; and as you indicate, there is a large cost. You pay for the maintenance, you pay taxes, you pay insurance, utilities, repair them, and get them ready to market. Our property sales in the last couple of years have been approximately 56,000. We have never sold more properties. Unfortunately, the stream is such that if we could factor out three regional offices—Houston, Muskogee, and Denver—if they had just been able to stay even, we would have had a reduction in inventory from the present 21,000 properties down to about 17,000 properties.

The people in the energy belt will tell you that when the price of domestic oil hits X, we will all be well off. I keep waiting for that price to be hit. We are clearly attempting to market the properties we do acquire in an expeditious manner. As of Monday a week ago, we had about 1,600 to 1,800 offers pending just in the Houston Regional Office. We sent a team down to clear the backlog. That is a lot of offers. We want to sell them. That provides the funds in the Revolving Fund to pay for—

Senator MURKOWSKI. John, I don't want to differ with you. So, I am not going to take an extraordinary amount of time here be-

cause Senator Graham has been kind enough to accommodate me. You know, you and I could sit down and spend half an hour with some accurate figures. I am sure that I could convince you from those figures and your experience in Houston and your general policy of holding in hopes that you can recover, that you are fighting a losing battle.

The private sector recognized a long time ago that you never recover during a foreclosure process. You do once in a while, but on the average, you have to basically subsidize your foreclosure with the gains from some good loans. It is not realistic to expect the Federal Government program to work more efficiently or be ahead of the market in the sense of trying to come back based on realized appreciation. You are better off to move the stuff as fast as you can, take your losses, and concentrate on your good loans that are paying off.

If you go back and reconstruct your costs, in a northern climate, you are holding places through the winter; you have freezeups, you have vandalism. You hope to come out ahead. You would be better off to move that stuff, give an incentive to the private sector—the real estate industry—to sell it for whatever the market will bear, what it will market at a given time, rather than hold it.

You are not able to tell me of the 87 percent foreclosed properties in Houston how many remain unsold. How much have you invested in this? What is the average cost? What is the appreciation? You know, these are problems. We have situations that are different all over the country. Values go up and down. How long are you going to have to wait for energy recovery in the energy belt to bail you out? These are all things that we don't know.

I would support your efforts 100 percent if you revamp your procedure; and as you foreclose, get the properties out in the private sector, give an inducement to a real estate agent to move them for whatever the market is, and be done with it. Thank you.

Senator GRAHAM. Thank you, Senator. We have been joined by a member of this committee, Senator Simpson, and also by Senator Domenici, who has previously requested the opportunity to make a statement to the committee. Senator Simpson, do you have an opening statement?

OPENING STATEMENT OF SENATOR SIMPSON

Senator SIMPSON. I want to thank you, Mr. Chairman. You are very gracious, and I see you are involved in the same things I was involved in and Senator Murkowski was involved in. This is a tough issue. I heard what Frank was just saying and, even though the attempt is continually made, you know we swallow a lot of money on these things. And I commend you for holding this oversight hearing to consider directions with this VA Home Loan Guaranty Program and problem. To me, the vexing thing has been that it is an important benefit; we know that, yet the problems are so real. We have a Revolving Fund that doesn't revolve, poor underwriting standards, and far too many foreclosures.

So, I applaud your efforts. I wanted to just leave my thoughts to be expressed by Senator Domenici about the practice instituted by the VA of dividing the country into very large regions for purposes

of establishing these debt to income ratios to determine whether a prospective home buyer will qualify for a VA guaranteed loan.

In my part of the country, that shoves us into the same pot with California, Washington, Colorado, and other States; but the economic picture is much, much different in my State. And I am encouraging the VA to develop property underwriting standards that accurately reflect that situation in individual States or, indeed, more closely defined regions.

And then there is one other matter; and I will submit some questions in writing. I have another obligation, but as I said, Senator Domenici is prepared to discuss that issue; and I concur totally with what he will tell you about that.

The other thing is I want to commend Mr. Donald Twitty of the VA Regional Office in Denver. We have a rather grotesque situation where residents of a subdivision have been forced from their homes because of methane or hydrogen sulfide into their residences, causing really quite severe injury and sickness. And the loans on 54 of those homes are guaranteed by the VA, and the VA holds vendee loans on 19 others. So, I am concerned that these homeowners not lose their right to use their VA guaranty by having to evacuate their homes, and the VA do everything in its power to assure that the homeowners are subject to no deficiency.

I think that is very important, and we are not asking for anything more than the other Federal agencies have given in this same situation. So, I would very much appreciate your giving me responses to those questions so that we can assure that these people might even give a deed in lieu of foreclosure, as other Federal agencies have done, in these affected homes.

And I would like to know the answers to those questions, and I will present those in writing. I commend you, Mr. Chairman. Indeed, when VA homes are on the market and they know they are in default, people just watch them deteriorate. They seem to enjoy the prospect of it, and I have watched that.

And then somebody comes and just practically scapes it up for nothing, and we take the bath. I don't know what the answers are, but it has got to be better than what it is now. Thank you very much, Mr. Chairman.

Senator GRAHAM. Thank you, Senator. I would like to ask the Veterans' Administration witnesses if they would yield temporarily so that Senator Domenici can testify. At the conclusion of his testimony, we will return to the Veterans' Administration witnesses. Senator Domenici?

STATEMENT OF HON. PETE V. DOMENICI, A U.S. SENATOR FROM THE STATE OF NEW MEXICO

Senator DOMENICI. Thank you very much, Mr. Chairman. I know that you have some very, very broad oversight issues, and I don't intend to take but just 2 or 3 minutes of your time. Obviously, I want to commend you and the Chairman of the committee, and the previous Chairman and all of those who have been concerned about the VA home loan guaranty program. I am concerned. Senator Murkowski makes some very good points about modernizing the system, but I am not here to address that.

You will hear people with much more expertise than I. I only happen to have learned about it when we were involved in the issue of the cost to the Treasury of this program now, as compared to what it was assumed it would cost when it was initiated because, at some point, it was to be totally self-sufficient. And as you all know, with the passage of time, it has not. And that is how it came to my attention with reference to budgetary implications.

I have a very specific request of the committee and ultimately, if it cannot be resolved administratively, I would hope that, if you are going to produce a bill on this subject, that you and your excellent staff would address the issue. New Mexico is not one of the richest States in the Union in terms of per capita income. It doesn't even come close; and obviously, it is not even in the same economic ball park in terms of average income with a State like California. Nonetheless, we find ourselves in a very unsavory position and one that results to the detriment of our people, in that States like Texas and Oklahoma and others that might be closer to us in terms of average income are in a region; and we are in a different region.

We are in a region where the income levels are pushed most predominantly by the family incomes of California. As an example, while I have no complaint at all with the residual income guidelines—that is, how you arrive at the figure of a residual income upon which you predicate the qualification or nonqualification—a State like mine is put into a region where the residual income for a family of four is \$941. That means if your residual income is lower than that, you don't qualify.

Obviously, we have two regions around us with lower residual requirements; one is \$868 and one is \$848. We think we more properly fit, just by way of the demographics of our income in our State, in one of those regions with a lower threshold. I have no legislative language at this point; I don't have any to suggest, but it does seem to me that somehow or another we cannot be quite as cavalier as throwing four or five States together without knowing that there is some real reason predicated upon income that creates that homogeneity because that is terribly important in terms of the bottom line of qualification.

So, we are going to suggest to the national agency that they find some better way to do it, and we will try to give them the statistics. We think they ought to have them, but we will search them out through the Bureau of Labor Statistics and others to show that we don't fit—in fairness, in terms of economic demographics—in the region that we are in, and that many New Mexicans will be disqualified because of that bottom line threshold number.

I would submit to you that, if Wyoming has the problem and New Mexico has the problem, it may very well be that there is a basic problem of how the States are pooled together. And everyone would like very much to make sure that the maximum number of their people qualify. I mean, we are celebrating a great event in terms of the number of houses that have been financed, and it is a marvelous achievement; and many people wouldn't have housing without it.

But the point is that there may be many people in New Mexico who should qualify; and if they moved across the State line and lived in Texas or in Oklahoma, they would. We may not even have

as high an average family income as the adjoining States, yet some of ours won't.

So, we just want to make sure that everybody understand that Belen, New Mexico is not Beverly Hills, California and Mountain-air, New Mexico is not Bel Air, California. And we just need a little bit of understanding on the part of the VA, and we need some understanding on the part of the committee that this may be a generic problem. And it is not accusatory.

When you pile four States together, all I am suggesting is that you ought to be awfully careful that, on the demographics of income, you have some reason to put them together or that you have a very flexible and easy way of getting them out and using another threshold standard if the facts so indicate.

I thank you for this opportunity. As far as the facts on my State and what has happened in the past, I will leave them for the record for your perusal. Thank you very much, Mr. Chairman, and I thank the witnesses for yielding a few moments to me. I greatly appreciate it.

Senator GRAHAM. Thank you, Senator. I wonder if the representatives of the Veterans' Administration would care to comment on the remarks made by the Senator from New Mexico?

Mr. VOGEL. I would be pleased to, Senator.

[The prepared statement of Senator Domenici appears on p. 133.]

Mr. VOGEL. Senator Domenici, we will convene this summer in August an underwriting working group of people from various divisions and regional offices—not all, but a representative group—who will work with Mr. Pedigo's staff in the Loan Guaranty Service to review the revised standards, as well as to review the latest Bureau of Labor Statistics figures. If any revisions are called for on a regional or national basis, we will make them.

Prior to September of last year, the field stations underwriting guidelines were based on non-uniform data. We began using the BLS statistics; which generally speaking, resulted in a more stringent underwriting standard. About 20 percent more available income is necessary to qualify for a loan.

In so doing, we are trying to also be responsive to the needs of the program. The catch phrase, I guess, would be that we don't do any veteran a favor by putting him in a home or helping him acquire a home that he or she can't pay for. So, we will be reviewing the guidelines on a regional and national basis. I appreciate everything that you said about it.

We want to be sensitive. We want to be sensible at the same time. We want to put veterans into homes but only if they can afford the payments.

Senator DOMENICI. Mr. Chairman, might I comment?

Senator GRAHAM. Yes, Senator.

Senator DOMENICI. I hope you don't misunderstand the Senator from New Mexico. I am not suggesting that you treat New Mexicans in such a way that we end up putting veterans in houses that they can't pay for, by being supergenerous.

The point I am trying to make is that, if there is a very large disparity in average income from which you would set your threshold between California and New Mexico—and California has had a

very serious effect on that threshold—all we want is the same relative opportunity to buy and get financed and the same opportunity to fail, and not one that is preferential on either side of that equation.

You understand that what the threshold could do could be saying in California you ought to have this much, and that is a good underwriting level because of the average income; but in New Mexico, because of everything—cost of living and a whole series of statistics—a lower number creates no greater risk for that veteran than it does the one in California. That is the issue, and we hope that you will attempt to address it.

In the meantime, you do have some flexibility in your areas; and when we do push hard and show them information, they have tried to be flexible, but I guarantee you that it is very difficult on the real estate community and the veterans' community when they have to go prove this kind of disparity every 4 or 5 months because they are told they don't qualify at a certain level. Thank you very much, Mr. Chairman.

Senator GRAHAM. While Senator Domenici is still here, in reference to the August conference that you mentioned, Mr. Vogel, will the VA be examining whether the standards to be applied should be on other than a regional basis or limited to an updating of the data which is used within a regional system?

Mr. PEDIGO. Senator Graham, we will be looking at any new studies that we become aware of in an effort to find something that is superior to the Bureau of Labor Statistics Consumer Expenditure Survey data that we are presently using.

So, yes, we will make an attempt to refine the present system below the current regional level; and in order to do that, we feel that we are going to have to research in an effort to find studies that will provide data, possibly on a State basis.

Senator GRAHAM. If the information is available on a State-by-State basis, and from the question that Senator Domenici asked in his previous statement, I would indicate that he has the information for New Mexico. I assume it is available for the other 49 States. What is the rationale of aggregating into regions as opposed to using the more specific State-based information?

Mr. PEDIGO. Last year, before we put out the new standards, we did an extensive amount of research. We had many meetings with the Bureau of Labor Statistics employees. We consulted with the Mortgage Bankers Association and the homebuilders, as well as the National Association of Realtors, in an effort to see what kinds of studies were available that we might be able to use in order to provide some uniformity to our underwriting system.

And the Consumer Expenditure Survey that we are now using was the one that seemed to be the best suited to our needs. We could not find a valid study that has broken down on a State basis. That is why we concluded that the Consumer Expenditure Survey was the most appropriate for our needs.

I would just like to add one point. We have had conference calls with our field stations since October 1 in an effort to assure ourselves that they are using these new standards as guidelines and not as hard and fast rules. We have encouraged them, as well as the lenders, to use these as guidelines and to look for compensating

factors in the veterans' financial makeup in an effort to approve any makeable loan. And our congressional inquiries, as well as direct inquiries, from veterans indicate to us that the problem with these new standards is not inordinate.

Senator GRAHAM. I am now returning to some questions which were generated by the original statement of Mr. Vogel, and I would hope that we could conclude this questioning period within the next 10 to 15 minutes so that we could then move on to remaining panels.

With respect to the proposal to require underwriting of VA loans which are assumed and the concurrent release from liability of the original veteran owner, you stated that you would prefer that than the release of liability be an option of the Administrator, rather than automatically granted. Your essential position, I assume, is that it ought to be a judgmental rather than a directory decision?

Why do you believe the veterans' liability should not automatically be released?

Mr. PEDIGO. We believe that there are some situations where a veteran who is in financial difficulty will find a buyer for his home, and the transaction would be concluded with an assumption. Where that buyer is a very marginal borrower himself, we would like to have the option to retain the original veteran as the party liable to the VA on that loan, as opposed to a buyer who might be more marginal than the defaulting borrower.

Senator GRAHAM. What would be your view of providing for automatic release except when the Administrator determined that retaining the veterans' liability was necessary to protect the interests of the United States, thus putting the burden on the VA rather than the veteran to take the initial action?

Mr. PEDIGO. I think we would have to study that, but it sounds like it might be something that we could support.

Senator GRAHAM. The current fee for vendee loans is 1 percent. If this fee were raised to 2 percent just for vendee loans, what effect do you think this would have on the marketability of VA properties through vendee loans?

Mr. VOGEL. Senator Graham, we look at the fee as necessary. It is now 1 percent, and we are recommending 2½ percent in order to solve a problem we have with insufficient funds available in the Revolving Fund. I think if the vendee fee was increased from the present 1 to 2 percent, it would have some effect on marketing the properties for which we provide vendee loans. We are very concerned with property disposition. We believe anything that would chill that a bit would be undesirable. On the other hand, there is an acute need for infusion of funds; and, therefore, we recommend a 2½ percent fee across the board, on vendee as well as guaranteed loans.

Senator GRAHAM. The issue here is the possibility of dividing the question between the original veteran loan and the subsequent vendee loan. What is your thought about the desirability of such a division and a different level of fee structure?

Mr. PEDIGO. I want to make sure I understand this. You are talking about one fee for the vendee borrower—a 1 percent fee for the veteran under the guaranty program and a 2 percent fee on vendee financing?

Senator GRAHAM. Yes.

Mr. PEDIGO. Our position, as Mr. Vogel, said is we would want a 2½ percent funding fee across the board. I think our concern on having a higher fee on the vendees than on the guaranteed loans would be that it would hamper our sales efforts at a time when we are in need of getting additional funds into the Loan Guaranty Revolving Fund.

Mr. VOGEL. I guess if we had to take one or the other, guaranteed loans put veterans into homes while vendee buyers are not necessarily veterans. If a fee has to be charged some place, we would probably opt toward relieving the veteran of the higher fee than would be the case with vendee loans. And we would have to make an accommodation in the marketing of properties for which we provide vendee financing due to the possible loss of buyers of properties for which we provide vendee loans.

Senator GRAHAM. As I understand it, you have recommended a 2½ percent fee for both categories, the veteran and the vendee loan. If that is the case, then why would that not have an equal or more inhibiting effect on the marketability than the 2 percent fee limited to vendee loans?

Mr. PEDIGO. It certainly would have a more adverse impact if we had the 2½ percent fee across the board. I guess what we are saying is that, in the best of all worlds, we would like to be able to market these properties on an equal footing with entities in the private sector where a funding fee of this nature is not always charged.

Senator GRAHAM. But you are proposing a fee which is higher than 2 percent. Do you harbor that same concern at a higher level with your own proposal?

Mr. PEDIGO. Yes, we would. That would be a concern of ours.

Senator GRAHAM. According to the mortgage bankers, the no bid formula has caused lenders to suffer severe losses with an average net loss per loan of \$16,500. MBA says that industry-wide losses totaled more than \$86 million in 1986. What are your estimates on this?

Mr. PEDIGO. We do not make an attempt to determine the losses that lenders suffer as a result of their participation in our program. We have not attempted to validate that \$16,500 per case figure. We maintain our own loss statistics, but they cover only VA's loss and not any loss that the lender may have suffered.

Senator GRAHAM. It would be beneficial to this committee and to the Congress, and I would think it would be of interest to the Veterans' Administration in terms of the economic health and continued interest of the mortgage bankers to have that type of information. We would like to ask your consideration of adding that as an element of your data gathering and then share that data with this committee.

Mr. VOGEL. We would be pleased to do that, Senator Graham.

[Subsequently, the Veterans' Administration furnished the following information:]

The VA is in the process of gathering information on the amount of losses sustained by lenders as a result of the application of the bid formula.

Senator GRAHAM. Both the VA and the MBA have indicated no objections to acquiring the payment of a one-half percent fee to be deposited in the Loan Guaranty Revolving Fund whenever a VA guaranteed loan is assumed. What effect, if any, do you think that imposition would have on assumptions?

Mr. VOGEL. Senator Graham, I think it would have a tendency to slow transactions down to begin with. When an assumer takes over a loan, they do so because it is expedient and is at comparatively low cost. It could, in fact, kill a deal in which a veteran is prepared to convey by assumption where he or she may be in danger of defaulting and going into foreclosure. A fee may inhibit the sale. The lender doing underwriting on assumptions would most likely charge a fee.

Under the FHA program, lenders are allowed to charge up to \$500 in order to do the underwriting on an assumption. If you add that to a \$50,000 property, plus another \$250— $\frac{1}{2}$ of 1 percent funding fee, it just adds to the cost an assumer must pay and it is liable to slow down the transaction.

On the other hand, clearly the program—as I have indicated before—has a need for funds. We want to keep this valuable program operating, as evidenced by the fact that we have asked for a $2\frac{1}{2}$ percent funding fee, without any expiration date.

Senator GRAHAM. Do you currently have statutory authority to regulate or restrict the amount of the lender's fee that is charged in an assumption transaction?

Mr. PEDIGO. We don't regulate that transaction. That transaction is outside the purview of the VA, but we do tell lenders that they can charge a fee for changing their accounting records. This generally runs about \$45 on \$50 in most jurisdictions.

Senator GRAHAM. In that case, if that is the actual cost, doesn't the \$500 figure that you indicated is sometimes charged seem excessive?

Mr. VOGEL. The amount that I suggested is the FHA fee for the underwriting of an assumption. The processing of an assumption now means the changing of accounting records. Lenders merely change the name from one owner to another owner. That is a low cost, but to undertake the underwriting of assumptions would cause lenders to incur additional expenses, which at present we have no regulatory authority to deal with. Am I right, Mr. Kane?

Mr. KANE. No, we don't have the regulations at the moment. We probably could do it.

Senator GRAHAM. Excuse me. Mr. Kane, could you repeat that, please?

Mr. KANE. I would think if it was determined that we should do it, we could draft the necessary regulations. The Administrator has very broad authority under the program.

Senator GRAHAM. So, you believe you have sufficient statutory authority to support a regulation that would set some limits on lenders' underwriting fees. Is that correct?

Mr. KANE. Yes, sir.

Senator GRAHAM. Could you get back to the committee in writing on that—the specific basis of statutory authority for such a regulation and your policy judgment as to whether it would be desirable to set a limit such as the FHA limit?

Mr. VOGEL. Yes, Senator, we would be glad to do that.

Senator GRAHAM. I guess there is an underlying theme here of trying to identify barriers that might make it difficult for VA guaranteed loans to be competitive in the marketplace. And I would like your opinion as to whether this has been or potentially could be a barrier and what action either administratively or statutorily would be appropriate.

Mr. VOGEL. Yes, sir. We would be pleased to do that.

[Subsequently, the Veterans' Administration furnished the following information:]

Section 1803(c)(1) of title 38, United States Code, provides that VA guaranteed loans "shall be payable upon such terms and conditions as may be agreed upon by the parties thereto, subject to the provisions of . . . chapter (37 of title 38, United States Code) and regulations of the Administrator . . ." VA believes this provision authorizes VA to issue regulations concerning fees lenders may charge for loan servicing functions, including actions undertaken when loans are assumed by third parties.

Since the regulations in effect when a loan is guaranteed set the terms and conditions applicable to that loan, any amendment relating to fees and charges would apply only to loans guaranteed after the effective date of such regulation.

As to the amount of a fee to be charged by lenders underwriting assumptions, we believe the \$500 fee allowed by HUD may be excessive in certain cases. Lenders may now charge up to 1 percent, as an origination fee, on new guaranteed loans. This 1 percent, in addition to covering underwriting expenses, also covers expenses related to general processing and closing of the loan. Since such expenses should be less on assumed loans, i.e., there is no lender responsibility for a closing, we believe fees for underwriting and processing assumed loans possibly should be limited to 1/2 of 1 percent of the loan amount up to a maximum of \$500. If regulations are developed to implement this proposal they will be published with a request for comments from program participants as to the need for such a fee and what the amount allowed should be.

Senator GRAHAM. NCOA endorses the use of flextime for loan guaranty employees because it would stagger access to and thereby allow greater use of VA data processing and other equipment and because VA staff working evening hours would contribute to a greater success in contacting veterans for the purpose of servicing loans. Has the VA considered a flextime program for its loan guaranty personnel? And what are your plans in this regard?

Mr. VOGEL. We do have flextime and irregular tours in operation in a number of the regional offices in order to accommodate the need to have lender contact, program participant contact with the agency, and our personnel's ability to provide loan servicing and contact veterans when they are more likely to be found in the early evening hours or the late afternoon hours when they are home from work.

I don't know how many stations we have on arrangements like that. It is locally decided, and the Directors have authority to provide their personnel resources where they get the biggest bang for the buck.

Senator GRAHAM. Could you give us a written reply on this and, in that written reply, include, one, data as to what is the current use of flextime. Number two, what are the conditions at the station—workload, personnel, staffing patterns—which would be indicative of the appropriateness of using other than standard staffing relationships? Is it self-initiated by the station to move to such an alternative staffing pattern? Or is that initiated from a regional central office? And is there management encouragement of such al-

ternatives when there appears to be a pattern of activity at the station that would make it more serviceable to veterans?

Mr. VOGEL. We would be pleased to provide the information. I think the general philosophy we offer to the regional offices is that the Director has a budget and he has all the authority to use the resources—the human resources, as well as the machine resources—he or she has to manage the workload. The general philosophy is to let them make those decisions as to the utilization of personnel.

I might indicate that, in the last couple of years, we have allocated to the regional offices whatever funds were available with a great deal more discretion than ever before. We are able through good management in our regional offices to provide more employment—almost 200 more employees—for the department than the FTE limits would suggest that they have. What they have done literally is squeeze out more personnel resources than would have otherwise been the case under artificial barriers such as the use of the full-time equivalent employment.

If they find that they can get the job done better by changing hours of work of regular tours, we encourage them to do so, and we think they have been responsive; but we can provide the breakdown that you suggested in detail.

[Subsequently, the Veterans' Administration furnished the following information:]

Irregular tours of duty have been utilized on a somewhat limited basis in the past. However, considerable overtime has been used over the past few years, much of it on Saturdays. This is the day many veterans can be reached at home, in an attempt to resolve their delinquency situation.

When workloads are extremely high, coupled with severe staffing shortages, modification in work schedules is deemed highly appropriate. Station Directors have authority to establish irregular tours of duty, set flextime schedules, and authorize overtime or compensatory time off in lieu of overtime.

Central Office Loan Guaranty Service has stressed the importance of contacting veteran-borrowers in default as early as possible, to discuss their circumstances and to offer appropriate VA assistance. Station management is encouraged to strongly consider the implementation of irregular tours of duty in order to reach as many veteran-borrowers as possible.

Senator GRAHAM. I am going to be taking somewhat longer than the 10 to 15 minutes that I had originally indicated in order to cover some of the oversight questions which have been developed by the Chairman.

The National Association of Realtors state on page 12 of their statement that it is concerned about veterans obtaining the proper release from liability when loans are assumed. The National Association of Realtors further stated that although the current release process was relatively timely and easy, experience with veteran sellers has demonstrated that veterans were not aware of their option to apply for this release of liability. What can be done to get the information out to the veterans?

Mr. VOGEL. When a veteran first receives the loan guaranty benefit, we advise him about release of liability. Of course, at that point in time, I think many veteran home buyers are more concerned with getting window coverings than they are with release of liability, having just moved into a home. Their thoughts are obviously: I am going to stay here with my family and enjoy this home.

We have increased our attempt to communicate release of liability provisions. Mr. Pedigo may wish to speak about some of the specifics of what we have done to try to address that bona fide concern of the National Association of Realtors.

Mr. PEDIGO. Yes. When a veteran initially applies for his Certificate of Eligibility, he gets a pamphlet that contains a section addressing release of liability. Then again, when he applies for the loan, there is a statement on the application form which addresses this issue. When the loan is closed and the lender reports the closing to us, and we guarantee the loan, we issue a package to the veteran that contains pamphlets which address this issue, as well as his Certificate of Eligibility which now contains a sticker—and I don't remember the color; it is either red or yellow—and it is a very prominent sticker that we now place on the certificate warning him of the need to get a release of liability in the event he should choose to sell his home at some later date.

So, we have enhanced our efforts to make sure that veterans are aware of the liability that they retain in the event that they do not apply and receive a release from the VA.

Mr. VOGEL. If we are able to provide for underwriting on assumptions, that provides us another opportunity to advise the veteran as to release of liability.

Senator GRAHAM. That is a policy that will apply in the future. Will it cover currently existing loans?

Mr. VOGEL. No, sir, it would not.

Senator GRAHAM. Under the current system, with the VA listing its own properties, it uses a lockbox key different from the one used by all realtors in the general vicinity in which the property is located. Since most of the others usually don't have a copy of the VA key, it is not possible for them to stop and show a vacant VA property they might come upon while they are showing homes to clients. Why doesn't the VA either see that there are enough keys distributed for every realtor to use or use the same lockboxes as are commonly used in a given area?

Mr. PEDIGO. The VA's position on that is that we only provide sales listings to brokers who have indicated the desire to sell our properties. Not every broker in a given locality has indicated that desire. As a result, we think it is good policy to issue our own lockbox keys so that non-VA brokers, if you will, will not be able to access these properties.

Senator GRAHAM. Why would not increasing the universe of brokers who potentially could sell properties not be in the VA's benefit?

Mr. PEDIGO. We have an extensive outreach program to get more brokers into our sales program; but the policy we operate under is one of maintaining some control over these properties. Since we have a large number of properties in many areas, we are concerned about this and these are vacant properties, I would remind you, and not owner-occupied properties, as are most of the properties that are marketed in the private sector. So, there is a greater need for us to maintain some security on these properties. It would concern us if we knew that every person who is qualified to sell a property in a given State had a key to gain access to our properties.

Senator GRAHAM. Apparently the practice of the VA is different from that which is common practice in areas—and I assume that when we hear later today from the realtors association that we will get some further information on that—assuming that is the case, I would ask for your attention to those comments and possibly a written response as to whether conformity with general practices would not facilitate greater participation by realtors in the sale of VA vacant properties?

Mr. VOGEL. We would be pleased to do that. We will undertake to reexamine our policy on that.

[Subsequently, the Veterans' Administration furnished the following information:]

In addition to security considerations, we have some concern about restricting the access to VA properties to members of a single private sector trade organization. In most areas, the lok-box system used by the majority of the sales brokers is owned and controlled by the local Board of Realtors' Multiple Listing Service (MLS) and is restricted to their members only. To obtain a key to this system, a firm must pay an additional fee (generally a substantial one) to join MLS. Each sales agent of the firm must also pay a monthly MLS fee, a key deposit and execute an agreement assuming responsibility for the cost to replace the lok-boxes if they lose their key. Many of the sales brokers who sell a large number of VA-owned properties specialize in selling foreclosed properties and are not members of the local Board of Realtors. Therefore, even if the local MLS's would permit us to use their lok-boxes, a large number of sales brokers who desire to sell VA properties would have to join the Board of Realtors and MLS in order to obtain a key. However, any real estate firm and its agents can obtain keys to our lok-boxes simply by stating their desire to sell our properties and, they do not have to join any organization or pay any dues and/or fees.

Senator GRAHAM. What would be the impact on sales of foreclosed properties if investors were required to make downpayments when purchasing a vendee loan on a vendee loan basis?

Mr. PEDIGO. Currently, most of our—offices require downpayments on acquired properties that are sold with vendee financing. We generally do not differentiate between an owner-occupant and an investor. My opinion on that is that, if we did require a downpayment—perhaps a greater downpayment for an investor—that it might hamper our sales efforts in some areas where investors tend to buy up a good number of our properties.

Senator GRAHAM. The information that I have is that the default rate on vendee loans is substantially a factor of 3-to-1 higher than loans directly to veterans. If that is in fact the case, and if our desire is not just to make the initial sale but also to make an initial sale which will stick and not require subsequent action, why would it not be desirable that there be a general policy of a downpayment on the vendee loan, a downpayment sufficient to give the vendee purchaser an equity stake in the property and thereby reduce the likelihood of a subsequent foreclosure?

Mr. PEDIGO. Our policy is to require a downpayment on vendee loans. We do give our stations the flexibility to sell without downpayment if they feel that that is necessary in order to sell a property in a particular economy.

Senator GRAHAM. Could you give us the policy documents that outline what that directive to the stations is?

Mr. PEDIGO. Yes. That is DVB Manual M26-5.

Mr. VOGEL. We will provide that for the record.

[Subsequently, the Veterans' Administration furnished the following information:]

DVB Manual M26-5, paragraph 3.12b(1), states, with respect to a field station: Director's authority:

"The Director is authorized to determine the amount of the downpayment to be made by purchasers of VA-owned properties. While it is desirable to secure downpayments in amounts sufficiently large to protect the VA against loss in the event of default, in many areas economic conditions will indicate the advisability of assuming business risks with minimum or no downpayments."

In addition, DVB Circular 26-84-35, Property Management Sales Program, states in applicable part:

"Downpayment. In an active market, VA can reasonably expect to obtain downpayments of at least 5 percent. However, when the initial list price and terms have failed to attract a qualified purchaser, the amount of the required downpayment should be reduced. The downpayment requirement should be eliminated entirely after a property has remained on the market for 6 months. Substantial downpayments should not be required of investors if the purpose is to deter investors from competing with purchasers who intend to occupy the property. Such impediments placed in the way of investors are inappropriate when they delay sale of a property. Except in the most active markets, investors generally purchase properties requiring substantial repair. The repairs an investor must make to prepare such an "as is" property for occupancy should constitute sufficient equity to protect VA from default, without the need for additional equity in the form of a cash downpayment."

Senator GRAHAM. GAO estimates that veterans' liability has increased by about \$2,700 and the application of the no bid formula results in the VA paying off the guaranty rather than acquiring the property. Do you favor legislation to exempt the veterans from such an increase?

Mr. PEDIGO. We would favor legislation that would permit us to determine the veterans' debt based on the market value of the property, as opposed to the net value, which I think would effectively accomplish what you are proposing.

Senator GRAHAM. Without regard to the no bid formula?

Mr. PEDIGO. Yes. In a sense, that would be a deviation from the no bid formula.

Senator GRAHAM. The Houston Advisory Council's testimony states that it has begun to see the success of its efforts to increase sales of VA acquired properties in the Houston area; but that without adequate VA staff, equipment, furnishings, and funds for overtime and contract labor, their sales effort will be useless. What is the VA doing in order to staff and equip the Houston Regional Office in line with the recommendation of that office's director and the Advisory Council?

Mr. VOGEL. We have added some additional staff to the Houston Regional Office and also authorized them to purchase ADP equipment, essentially large-capacity personal computers. We are very pleased with the working arrangement the office has with that group. We have a task force down there—some 15 individuals—right now to try to process all the offers pending on sales. We had some 1,600 properties—or 1,600 offers pending, and we worked that down to something like 600 as of last Monday. We have provided for Houston additional overtime moneys and contract help. We also have authorized the transfer of employees on a lateral basis to that office and a few other offices that are especially beleaguered, with the Veterans' Administration—the U.S. Government—paying the cost of that move.

That gets us qualified, very experienced individuals into the work force. We also detail employees within the station.

About a month ago, it was suggested that additional resources beyond which we have provided or called for, be authorized. We have really spread all the resources that we have available in the department. There are a number of offices, Houston probably being the most dramatic, that have acute challenges before them, handling not only loan guaranty workload but other workloads; and we have attempted to accommodate them with the resources we have by giving them mostly overtime contract moneys and some small amount of additional personnel.

Senator GRAHAM. What activities and at what dollar volume does the VA currently carry out by contract in the Loan Guaranty Program rather than through the use of VA employees directly?

Mr. VOGEL. I don't have that figure at my disposal, Senator Graham, but I can provide it for you and would be pleased to do so.

[Subsequently, the Veterans' Administration furnished the following information:]

The VA uses contract personnel for appraisal reviews, loan examinations, and compliance inspections incident to the guaranteeing of home loans. This amounted to nearly \$1.9 million during fiscal year 1986, and for the first 8 months of fiscal year 1987, contractual services totaled \$1.1 million.

Senator GRAHAM. Is there a potential to carry out other loan guaranty activities by contract; and if so, which activities might they be?

Mr. VOGEL. At the request of counsel, we provided a list of activities that could be contracted out the other day. I don't know that I have that in front of me.

There is broad authority within the law to use contractual funds. Virtually all of our appraisal activity has been done for years by people working on fee basis. We have individuals who review appraisals on a contract basis. Some auditing of lenders could be done by fee basis personnel. Post-audit reviews of prior approval and automatic loans could, in fact, be done on contract. The issuance of guarantees on prior approval and automatic loans and loan servicing could be done on a contract basis. We have identified those things. The dollar amounts called for would be payable in almost all instances out of the general operating expense budget and not out of the revolving fund. So, we would be impeded in our use of contract funds for all those things that we suggested, given the resources that we have and the capacity only to pay for them out of the general operating expense portion of the department's budget.

Senator GRAHAM. I understand that we have not received that response that you indicated counsel had asked for.

Mr. VOGEL. My understanding is that it was hand carried yesterday morning. If you don't have it, I apologize sincerely for it. I saw it Monday evening and understood that it was carried up first thing Tuesday morning. I have a copy in front of me, and before I leave, I will give that to Mr. Steinberg.

Senator GRAHAM. Thank you. If you were provided authority to pay for contract activities out of the Revolving Fund, such as the authority you now have under section 1824(b) of title 38 to pay appraisers in connection with loan terminations, what purposes could you utilize such authority on a cost-effective basis?

Mr. PEDIGO. I think we could probably use it on a cost-effective basis in most of the areas enumerated by Mr. Vogel in his previous response. In addition, I would suggest that we might be able to use it effectively to conduct the pilot program that we have been mandated to carry out in our property management program under which we would contract out 10 percent of our inventory to the private sector in an effort to determine if they can perform management and sales functions more cost-effectively than the VA.

We believe that we may have some funding problems on that issue right now which could be resolved if we had the authority to use revolving fund moneys.

Senator GRAHAM. Thank you. In your written statement for today's hearing, you stated that the VA is exploring the possibility of using voluntary conveyances in lieu of foreclosures in certain instances, as long as the veteran agrees to remain liable for the amount of the claim paid by the VA. Do you believe that the VA would require the expressed statutory authority in order to adopt such a policy?

Mr. PEDIGO. I am sorry; I didn't hear the last part of that.

Senator GRAHAM. You currently have statutory authority to implement such a program, or would congressional action be necessary?

Mr. PEDIGO. We believe that we have that authority currently.

Senator GRAHAM. When do you anticipate having a policy decision as to whether to utilize that existing authority?

Mr. PEDIGO. Let me defer to Mr. Kane on that issue. I say that we have the authority. Mr. Kane, would that depend on the locality, or would that be nationwide?

Mr. KANE. Yes. There may be some State prohibitions; but in general, we have the authority to do it and are doing it—it is my understanding—in those States which allow it, in those instances where the loan guaranty officer deems that it is appropriate. In fact, we have encouraged deeds in lieu of foreclosure over the years, to my understanding.

Senator GRAHAM. So, you are saying that if there is a legal prohibition, it is not a congressional prohibition relative to the Veterans' Administration?

Mr. KANE. That is true. It is external. And we do encourage it since it is to our advantage to get the property quicker.

Senator GRAHAM. Would you believe it would be good policy for the Congress to exercise its preemptive power and override those State statutes which might today restrict the use of voluntary conveyances in lieu of foreclosure?

Mr. KANE. I happen to personally think that deeds in lieu of foreclosure are a good course of action, as far as we in the agency are concerned; but since that is a policy question, I would defer to these gentlemen.

Mr. VOGEL. I would have to say, Senator Graham, that I am not prepared right now to respond to that.

Senator GRAHAM. If you could supplement with a written response on (a) the policy and (b) should that policy be effectuated to the maximum by necessary congressional action to preempt State laws which might serve as a prohibition?

Mr. VOGEL. Yes, sir. I would be pleased to do that.

[Subsequently, the Veterans' Administration furnished the following information:]

(a) Under customary real estate practice, the consideration for a debtor providing a voluntary deed to the loanholder is a total release from further liability under the loan obligation. Accordingly, the VA has usually not been willing to accept a deed in lieu of foreclosure when it appeared that the veteran would be able to repay any post-foreclosure debt established.

In some instances, however, VA has approved acceptance of deeds in lieu of foreclosure where the debtor has not been totally released from liability. Where this procedure is legally permissible and it is in the best interests of the Government, VA favors such an arrangement.

(b) VA is not recommending any such legislation at this time. An informal survey made by VA immediately following the hearing reveals that VA is legally able to obtain deeds in lieu of foreclosure in virtually all jurisdictions. In some States, however, nonjudicial foreclosure of deeds of trust is a relatively quick and easy procedure. Since using those foreclosure procedures may actually be easier than obtaining a deed in lieu of foreclosure, VA does not obtain deeds in lieu very often in those jurisdictions.

A more complex issue is whether VA may obtain a deed in lieu of foreclosure but still hold the veteran liable for the difference between the value of the property and outstanding debt. VA believes this is possible in most States. In a small but significant number of States, however, the law would either preclude this practice, or the issue is not clear. This is especially true where State law requires a redemption period unless deficiency rights are waived, or where creditors must provide adequate consideration.

A number of court decisions have cast doubt on VA's right to hold a veteran liable for a deficiency where State law denies a creditor deficiency rights when the use of a certain procedure has the effect of denying the debtor an otherwise State-guaranteed right, such as redemption.

Further, even if permitted by law, many veterans would be unwilling to voluntarily deed their property to the loanholder if the veteran would remain liable for a deficiency.

VA does not have a position at this time on whether Federal legislation should be sought to override State foreclosure laws on the question of deficiency rights.

Senator GRAHAM. GAO testimony indicates that the average purchase price of property secured by VA guaranteed loans when a downpayment was made was \$92,000, with an average downpayment of 12.5 percent. Since the VA guaranteed loans to a maximum of \$27,500, doesn't this mean that lenders are getting security for such loans of over 42 percent of average, which is well above what lenders receive in the conventional market?

Mr. PEDIGO. The VA's position on that issue has been that we have to have some middle ground, and the \$27,500 certainly would give lenders a greater amount of protection on lower loan amounts but much less on higher loan amounts. That is why we try to find some middle ground when we establish the maximum guaranty that would be available.

Senator GRAHAM. I think the point here is that there is a tiering effect here. First is the average downpayment of 12.5 percent plus the \$27,500 loan guaranty. Does that not give to the lenders a security level which is above that which is available typically in the conventional market?

Mr. PEDIGO. It may in some cases.

Senator GRAHAM. Does that indicate that any action should be taken?

Mr. PEDIGO. We don't believe that action should be taken. Really, when we talk about loans where there is a downpayment made, we are talking about the more secure loans in a lender's GI portfolio,

and I don't think that we would want to take any action that would eliminate some of the more secure loans that we guarantee.

Senator GRAHAM. Does this suggest that the VA may be overguaranteeing, oversecuring loans in such cases contrary to the intent of the Home Loan Program? And if there is such an oversecuring, what can and should be done about it?

Mr. PEDIGO. If common opinion is that we are oversecuring, then I guess we are doing it pursuant to the law. I think there are two sides to this issue. You could argue that we are oversecuring on loans of that type. On the other hand, to be perfectly honest with you, I have never been asked a question of this nature; and I am not sure how oversecuring a loan would impact on the VA if we are really talking about oversecuring the more secure loans to begin with. I mean, it certainly would be to the Government's advantage to retain this oversecured position on the higher loan amounts.

Senator GRAHAM. The minority chief counsel has asked me to ask this question. Is the VA a member of the multiple listing service to market its properties?

Mr. PEDIGO. Multiple listing services—and the spokesperson from the National Association of Realtors can probably speak more effectively on this issue—but multiple listing service is something that is not operated on a national basis. There are literally hundreds, if not thousands, of separate entities throughout the country, multiple listing services that follow a basic set of guidelines from the NAR but still have a considerable amount of flexibility to impose their own rules and requirements.

We have encouraged our field stations to make an effort to get our acquired properties into multiple listing services if the requirements of that local multiple listing service permit. We do have some offices that have been successful in negotiating a contract, if you will, with multiple listing services; but I will tell you that it is not a widespread situation at this time, but it is not because of any lack of effort on our part.

Senator GRAHAM. Are there any barriers in terms of policies of the multiple listing services that restrict VA participation?

Mr. PEDIGO. I guess the answer to that is yes, and I am not prepared to enumerate those at the present time; but we would be happy to prepare an analysis of the situation and present it for the record.

Senator GRAHAM. And again, if you could include in that response: What is the guidance given to the individual stations as to the utilization of MLS?

Mr. PEDIGO. Yes, we will do that.

[Subsequently, the Veterans' Administration furnished the following information:]

VA lists all of its properties with local real estate brokers. However, this is done on an "open listing" basis—where any broker may compete—rather than on an exclusive listing basis—where only one broker has the right to sell a particular property. The granting of an exclusive listing is the key requirement for entering properties in most Multiple Listing Services (MLS). A few VA field stations have been successful in negotiating with local Boards of Realtors to have their properties entered into MLS without exclusive listings, however.

Senator GRAHAM. Senator Cranston, Senator DeConcini, and possibly other members will have written questions. We ask that we have responses by next Friday, June 26. Is that a reasonable date, Mr. Vogel?

Mr. VOGEL. I think the committee has been very reasonable. I apologize for the tardiness in getting our testimony before yesterday afternoon late. I would be embarrassed to say that that was unreasonable since you have had a history of being very reasonable with us. So, we will endeavor with all of our efforts to get that to you on the date you suggest.

Senator GRAHAM. Good. Thank you very much. We will all try to be reasonable men and women. [Laughter.]

Mr. Vogel, thank you very much for your testimony. We appreciate your continued cooperation with the committee. Thank you very much.

Mr. VOGEL. Thank you, sir.

Senator GRAHAM. Our next witnesses consist of Mr. Thomas M. French, Jr. of Florida, who is Chairman of the Board of BancBoston Mortgage Companies of the Mortgage Bankers Association of America; Mr. John Koelemij, also of Florida—indicating the high quality of the witnesses available today—who is Past President of the National Association of Home Builders, which also speaks to the wisdom of both the mortgage bankers and the homebuilders; and Ms. Jennie L. Stabile of California, the 1987 Vice-Chair, Real Estate Finance Committee of the National Association of Realtors.

On behalf of the committee, I welcome all of you here. The chairman has already spoken about his feelings for Ms. Stabile, and I thank you for being here; and I wish to express my personal appreciation for Mr. French and Mr. Koelemij coming from one warm climate to another warm climate to be with us today.

Mr. French, if we could have the benefit of your comments?

STATEMENT OF THOMAS M. FRENCH, JR., CHAIRMAN OF THE BOARD, BANCOSTON MORTGAGE COMPANIES, INC., AND PRESIDENT, MORTGAGE BANKERS ASSOCIATION OF AMERICA

Mr. FRENCH. Mr. Chairman, I thank you for those comments. Mr. Chairman and members of the committee, my name is Thomas M. French, Jr., and I am Chairman of the Board of BancBoston Mortgage Companies, Inc. of Jacksonville, Florida, and I am President of the Mortgage Bankers Association of America. Accompanying me are Burton C. Wood, MBA's Legislative Counsel, and Linda K. Bumbalo, MBA's Associate Legislative Counsel.

MBA appreciates this opportunity to testify on two legislative initiatives affecting the VA Home Loan Guaranty Program, as well as the current no-bid crisis that is jeopardizing the guaranty program as an entitlement for veterans who have served in this Nation's Armed Forces.

MBA strongly supports the provision of S. 9, the Service Disabled Veterans Improvement Act of 1987, to increase the maximum guaranty amount to \$36,000. Such an increase in the guaranty would more realistically reflect the ever-increasing costs encountered by the veteran home buyers in the marketplace. MBA also supports the provisions of S. 9 exempting the VA Home Loan Guaranty Pro-

gram from sequestration under the Gramm-Rudman-Hollings Act, which would clarify the status of benefits under this entitlement program.

MBA would like to take this opportunity in testifying on S. 920, the Veterans' Housing Amendments Act of 1987, to focus on what we consider to be the darkest cloud hanging over the Home Loan Guaranty Program—the no-bid crisis that has wreaked havoc on lenders and veterans in areas of the country that are suffering from devastating economic conditions.

Steep depreciation in home values and VA delays in administering foreclosure cases, both beyond the control of the lender, have exacerbated the situation. It is uncertain whether, under the present structure of the program, veterans in all parts of the country will be able to secure VA home loans. Changes should be made to the claim payment formula, certainly if it is extended beyond September 30, 1987, to take into consideration the extraordinary plight of homeowners and lenders in severely economically depressed areas, with a view toward significantly lowering no-bids in those areas.

MBA specifically proposes to limit, on a case-by-case basis, losses from no-bids resulting from steep declines in property values. Where the property value has declined more than 15 percent, the lender would have an option of either, one, being paid the guaranty amount and keeping the property, or two, conveying the property to the VA and forfeiting 5 percent of the debt at the time of liquidation.

In this way, the lender would share the loss with the VA in those cases where vast declines in market values have occurred. MBA further urges a change in the no-bid formula that would address the problem of no-bid caused by interest accruing during foreclosure delays that are beyond the control of the lender. MBA specifically proposes that the amount of interest included in the formula calculation be limited to 90 days, which is the customary default period, prior to initiation of foreclosure. In those cases where the VA acquires the property, the lender should be reimbursed for all interest accrued as of the liquidation sale.

MBA believes these two proposals would provide desperately needed help in those cases where the no-bid crisis is beyond the control of any prudent lender and veteran homeowner.

Otherwise, Congress should perhaps decide whether it wants the program to continue as an entitlement.

Thank you, Mr. Chairman. This is our testimony. Obviously, we will be happy to answer any questions. Thank you.

Senator GRAHAM. Thank you, Mr. French. Mr. Koelemij?

[The prepared statement of Mr. French appears on p. 135.]

STATEMENT OF JOHN KOELEMIJ, PAST PRESIDENT, NATIONAL ASSOCIATION OF HOME BUILDERS

Mr. KOELEMIJ. Mr. Chairman and members of the committee, my name is John Koelemij. I am a homebuilder from Tallahassee, Florida, and have been active in the VA Home Loan Program since 1954. I had the pleasure of serving as President of the National Association of Home Builders in 1985. Before presenting our views on

the VA housing legislation, I would like to welcome you, Mr. Chairman, as a member of the committee. I am pleased that Florida is so ably represented. I, as well as my other colleagues in Florida, look forward to your continued participation in the housing area.

First, I would like to comment on the home loan guaranty provisions of S. 9. Given the substantial increases in the cost of housing since the last time the loan guaranty maximum was raised, we believe that an increase in the loan guaranty amount from \$27,500 to \$36,000 in this legislation is well justified. The rise in home prices of 46 percent since the last time the loan guaranty was increased in 1980 would actually support an increase in the loan guaranty to over \$40,000.

Mr. Chairman, we should not forget, when we compare this kind of loan with a regular market-type loan, that a VA loan is usually without a downpayment. That makes a difference.

We also support the provision in S. 9 to exempt the VA Home Loan Program from the sequestration provisions of the Deficit Reduction Act. In 1986, Congress had to increase the loan guaranty ceiling twice because of this legislation, causing severe disruptions in the program and the processing of applications.

In addition, we support an adjustable rate mortgage which was included in the S. 9 in the 99th Congress. Adjustable rate mortgages with caps on interest rates have proven to be a valuable tool under the FHA Program in the conventional marketplace and would provide an important option to the veteran home buyer. Interest rates for an adjustable rate mortgage are typically 1 to 2 percent lower than a fixed rate loan, resulting in a savings of as much as \$100 a month.

The VA interest rate has increased from 8.5 percent to 10 percent since the beginning of this year. In a higher interest rate environment, ARMs, or adjustable rate mortgages, are an even more attractive option because they carry lower initial rates. As rates fall, ARMs allow the veteran borrower to enjoy rate decreases without the expense of refinancing, which can be very expensive.

If the adjustable rate mortgage is patterned after the FHA ARM, there would be no negative amortization. The cap under the FHA is on the interest rate—1 percent per year with a 5-year maximum over the life of the loan—rather than on the payment. This is a significant protection for the consumer.

Mr. Chairman, we further support H. Con. Res. 79, which states that the 1 percent fee should not be increased. Congress passed similar legislation last year, and we hope that the Senate will adopt this proposal again this year. In addition to a fee increase to 2½ percent, the Administration bill, S. 920, includes a negotiated interest rate between the buyer and the lender which we oppose.

NAHB supports the continued use of the current administratively established VA rate. Because of its sensitivity to market conditions, the VA prevailing rate has become an important national benchmark for mortgage interest rates. We support the provision in S. 920 which gives authority under the VA Guaranty Loan Program to the lender to determine the reasonable value of homes bought by veterans, rather than sending the appraisal to the VA Administrator. This follows the pattern of the FHA's direct underwriting program. Approved lenders would then determine the

market value of the home from appraisals approved by VA certified appraisers, close the loan on the basis of their own independent review, and then directly notify the veteran.

Direct endorsement of appraisals will decrease processing time in approving loans and allow the VA to operate more effectively under staffing constraints.

In closing, Mr. Chairman, I would like to emphasize our support for an increase in the loan guaranty maximum, exemption from mortgage ceilings, provision for an adjustable rate mortgage, and direct endorsement of VA appraisals.

We oppose the increase in the VA user fee and the establishment of a negotiated interest rate for veteran home buyers. I will be glad to answer any questions you may have. Thank you.

Senator GRAHAM. Thank you very much, John. Ms. Stabile?

[The prepared statement of Mr. Koelemij appears on p. 164.]

STATEMENT OF JENNIE L. STABILE, 1987 VICE CHAIR, REAL ESTATE FINANCE COMMITTEE, NATIONAL ASSOCIATION OF REALTORS

Ms. STABILE. Thank you, Mr. Chairman. It is good to be here with you today. My name is Jennie Stabile. I am a realtor from Woodland Hills, California, and the 1987 Vice-Chair of the Real Estate Finance Committee for the National Association of Realtors. On behalf of the more than 730,000 members of our association, I want to thank you and the members of your committee for the opportunity to present our views on the VA Home Loan Guaranty Program.

I would like to address—Senator Cranston's bill—S. 9, the Service Disabled Veterans Benefit Improvement Act of 1987, regarding the maximum VA home loan guaranty amount. Mr. Chairman, as we have previously testified, the National Association of Realtors strongly supports section 6 of your legislation which proposes to increase the maximum loan guaranty from its present \$27,500 to \$36,000. We believe that this increase will better reflect the increase in home prices which has occurred since 1980, the last time the VA maximum was raised, and will allow more veterans the opportunity to purchase a home.

Regarding sequestration, section 8 of S. 9 removes the VA Home Loan Guaranty Program from the purview of the Gramm-Rudman-Hollings Deficit Reduction Law and, thus, exempts the program from sequestration. We support adoption of this provision because we believe that the VA Home Loan Guaranty Program is an entitlement program secured through service to one's country, and it should be allowed to operate in an unfettered and uninterrupted manner.

With regard to S. 920, the Veterans' Housing Amendment Act of 1987, the National Association of Realtors continues to support legislation which would repeal the authority of the VA Administrator to establish the maximum rate for VA guaranteed loans and allow the rate to be negotiated between the borrower and the lender. Also, section 7 of S. 920 authorizes the VA Administrator to establish an appraisal system whereby appraisal reports completed by VA designated fee appraisers would be received and reviewed by

approved lenders without VA staff involvement. This proposed change is similar to the appraisal process which is part of HUD/FHA's direct endorsement program, and we support its implementation because we believe that it will provide more timely service to the home buying veteran and will also allow VA field offices to operate more effectively under its current staffing constraints.

Section 8 of S. 920 proposes increasing the minimum and maximum percentage of inventoried properties sold without vendee financing. We believe that the current percentage limitations have worked well over the past 2 years, and we see no reason to increase these levels at this time.

H. Con. Res. 79 deals with origination fees. Mr. Chairman, the National Association of Realtors continues to oppose increasing the current 1 percent VA loan origination fee and enthusiastically supports H. Con. Res. 79, which expresses the sense of the Congress that this fee should not be raised. We also have concerns regarding program-wide issues and proposals and, in particular, sale of vendee loans. As we previously testified, we continue to question the cost-effectiveness of the Administration's proposal to sell VA vendee loans on a nonrecourse basis and believe that the overall solvency of the Loan Guaranty Revolving Fund would be better served if sale of assets were conducted on a recourse basis.

With regard to VA assumptions, the National Association of Realtors opposes proposals which would require new underwriting on VA loans which are assumed when a veteran sells his or her home. As a result of this change, we believe that prospective veteran sellers may find it more difficult to sell their homes because potential buyers may be unwilling to undergo an expensive, burdensome, and time-consuming underwriting procedure. This is particularly so if potential assumptors are required to pay an additional $\frac{1}{2}$ of 1 percent origination fee, along with other fees which lenders may charge for processing an assumption.

We also oppose the imposition of this additional fee. We support efforts to improve the availability of financial counseling, but this worthy goal cannot be accomplished in the current environment of inadequate VA staff and resources.

The National Association of Realtors supports legislation which would change current law to allow active duty military personnel who are transferred to refinance their homes through the Veterans' Administration.

In conclusion, Mr. Chairman, thank you once again for the time to offer recommendations regarding the VA Home Loan Guaranty Program. We look forward to working with you and your staff as you fashion legislation to address the needs of this valuable program.

I have a couple of other comments that I would like to make if we have the time relative to the comments made prior.

Senator GRAHAM. You have anticipated my question, Ms. Stabile. [The prepared statement of Ms. Stabile appears on p. 180.]

Senator GRAHAM. I was going to ask each of you if you would care to comment on the remarks made by the representatives of the Veterans' Administration or the comments made by other members of this panel. Mr. French?

Mr. FRENCH. I would certainly defer to the lady.

Senator GRAHAM. Ms. Stabile?

Ms. STABILE. I was just going to answer the question raised by Senator Domenici. Realtors in other Western States like Montana, Wyoming, Idaho, and believe it or not, California—when you talked about the North and South and Central State of California, you have varying degrees of income there also. You have homes for \$35,000 and \$40,000 in the Midwestern State of California. So, we have the same problem there: the level of residual income. We are also very concerned about this issue.

You talked about lockboxes and conformity with availability of keys, but maybe I will wait on that one issue and talk more about it later, as we get into the disposition program. I wanted to make a comment that we need to stress that most VA offices have been very cooperative and have tried to adopt some policies of uniformity; but because of their lack of resources, equipment, and staff, it has been very difficult for them to do so, especially in the area of disposition of their properties. Thank you very much, Mr. Chairman.

Senator GRAHAM. Thank you. Mr. French?

Mr. FRENCH. Senator, I was reminded, in thinking about this testimony and what I have heard today, that some years ago there was a song about music in "We Write the Songs." I would like to say that the mortgage bankers, in terms of the VA loans, "We make the loans." And the statistics reflect—John Vogel said, coming over here, that he thought we made in excess of 80 percent of them—our records reflect that is probably closer to 90 percent in some years or 95 percent of the VA loans.

The general comment I would like to make is that, in our world out there where we make the loans—and I recognize from all the testimony today that the concern of this committee is that the Federal Government guarantees those loans—but there is an atmosphere growing among the mortgage bankers of the country that increasingly there is danger and risk in making the VA loans. The no-bid situation has come up largely unanticipated, and it has provided some real and massive losses in the areas of economic depression that had not been anticipated.

For this reason, we are strongly proposing that the no-bid formula be reconsidered so that this vastly valuable program can be preserved. Because I am the oldest living mortgage banker, I am probably the only one in here who used the GI Bill as a result of World War II military service; but without it, my family wouldn't have had a home. I am, therefore, personally and professionally vastly protective of it. One other comment I would make is that in some of your discussion it seemed to be implied that it was not uncommon at all for VA loans to have a considerable downpayment. Actually, our statistics show that—and I have the figures here—the average loan to value ratio is about 96 percent; and indeed, more than about 75 percent are 100 percent loans. The VA loan has always been an entitlement and not been regarded in the same sense as the FHA loan.

I hope we can find a way to preserve this national treasure and keep it so the risks are not ever mounting to the lender to discourage us from making the loan.

As you may be aware, in certain States like Texas and Oklahoma, you can't sell the servicing any more of VA loans. It is now considered an onerous responsibility. But the program is significant; it is important, and we must find a way to keep it going.

Senator GRAHAM. Thank you, Mr. French. Anyone whose comments can range from Barry Manilow to Methuselah in one statement, your words warrant close attention. [Laughter.]

Mr. FRENCH. I am not sure if that is a compliment, sir——

Senator GRAHAM. It was intended to be a compliment. [Laughter.]

Mr. KOELEMIJ. Senator, the stories about the no-bid sales and getting rid of the properties as soon as you can, in a market like Houston is called "dumping." Dumping can be very damaging and detrimental because the new ground rules that have been set out for appraisals and underwriting standards adopted by Fannie Mae for the secondary market, will have an immediate effect on the sale of new homes under construction or new properties still to be closed and to be marketed.

So, that is another danger that exists, by creating a problem in the marketplace. We are very much concerned with that happening. And that is the reason why the VA staff people just told you that, in some markets, they would say let's take the property because we expect better times. And when I say that, I think back about what we went through in 1973 and 1974 where we had some real problems in our economy with foreclosures and so on.

The statistics for last year's VA loan closings in Florida, for example, show that we closed 18,757 VA loans. This is almost 10 percent of our total single-family unit sales in the State. The foreclosure inventory of the VA for Florida is 532 units, which is only 2.6 percent of the total that they have in inventory, of 20,513. And we have 5.3 percent of the veterans living in Florida. So, what I am saying is that there are times when we have some problems, and appraisers and people who look at the marketplace know it is coming back; and we are talking about all prices coming back. I don't know what it will take; I am not an economist or dare to predict, but I think that the unloading or the dumping of the properties is very detrimental to a lot of people.

And I think that this no-bid idea is really not a good one, and we would ask the VA to reconsider that.

The question that you had raised in one of your questions to the VA is how they look at residual income. We have experienced some trouble with builders on a national level and have found that the VA has been willing to listen and to review some of their standards. We think that if they comfortably feel they have that authority, that is probably a better way than to make or legislate income levels.

But it is something that should not be put in a district and be used across the board. It should be looked at at least on a State level and maybe divisions within a State. In Florida, for example, there is a difference in income levels in the northern and southern areas.

Senator GRAHAM. The Veterans' Administration response to that question raised by the comments from Senator Domenici was essentially a data restraint, that they were doing it this way because

they didn't have information to do it on a more localized basis. The problem of establishing the worthiness of a potential buyer is not unique to the VA program. What would be your advice to the VA based on practices in the industry that attempt to localize economic information as a basis of setting underwriting standards? Mr. French?

Mr. FRENCH. I am not sure I know the answer to that, Senator. I think my association can perhaps provide some, but I am not sure I know. I can't give you a quality answer. Maybe John can.

Mr. KOELEMIJ. Senator, I can only look at the standards that the FHA has used in some of their determinations of eligibility under certain programs where they have used statistics on metropolitan areas and income levels. Now, that may be going too far and takes too much time, and the VA absolutely does not have the personnel to do any kind of survey like that. I wondered, however, if they could make use of HUD's standards or be a little bit more courageous in looking at the variety of standards that are available on State levels. I am talking about State employment agencies that keep records, and a myriad of information that is available.

Senator GRAHAM. I look upon the responsibility of the Congress relative to the Veterans' Administration from a personal background as an executive and a reticence to get Congress involved in excessive micromanagement of the agency. Our role is to set general policy directives, and then the Administrator to carry those out and us to oversee how they have been conducted. Using that as the framework of responsibilities, what would you suggest should be the priorities of the Congress relative to the Veterans' Administration in terms of those policy directives that we might either rescind or could initiate that would place the Administrator in an enhanced position to achieve the objective of this program for American veterans?

Mr. FRENCH. I must confess that our current pain is causing us a little bit of problem about concentrating on the larger picture. Obviously, increasing the amount of the loan guaranty, we think, is a matter for Congress' oversight. Also, stepping back and looking at the effect of the no-bid formula on the VA program as it particularly affects the lender and, in some cases, also the borrower; this program is going to have, I think in the long term, a very disadvantageous effect, particularly on the borrower. The lenders, I think, will gradually be disinclined to make the VA loans or, in some cases, require higher downpayments or stiffer underwriting limitations that would occur.

And I think in some ways the crisis precipitated by the no-bid and the constant assault of the OMB to saying that we want ever-increasing fees has created an interesting situation in that it has, in effect, put the VA loan guaranty system in the hands of this committee and the House committee to determine what future this program has. It can be construed in such a way that we, the lenders, are more and more discouraged from using the program and financing it, or it can be brought back to its original intention and vast and great success. We have tried through our testimony, and last year we fed into the VA many practical suggestions, many of which my colleagues have also advocated, trying to set out ways in which we can help the VA carry the administrative burden and to

make the program continually viable, instead of there being constant assaults on minor aspects and pushing the program into less desirability and moving it away from availability for the veteran.

It is a great program, as I said, perhaps in rhetoric; but in seriousness, the program needs to be conserved and particularly the no-bid needs to be addressed.

Mr. KOELEMIJ. Senator, I would agree with what Mr. French has told you, but I think what has also happened is an attitudinal behavior problem of OMB as to the cost of running the VA or other housing-related programs. This has had a great effect and actually caused the three associations that are sitting at this table to adopt a draft of a national housing policy. We feel that it has gone by the wayside in the last few years and that we don't speak up enough for housing. Now, it is good and well to say, sell these mortgages because it helps the budget deficit and brings in more money. But I think it is selling your store before you have all your merchandise ready for sale. And therefore, you don't have a continuing operation. I think this attitude has gone to the lower levels, and the restriction of personnel as we have seen in Florida. The moving out of the VA office in Jacksonville to the St. Petersburg Regional Office has detrimentally affected the program, not only for builders but for lenders, and also for the management of the foreclosed properties. They don't have enough personnel, and this is all because of the pressure of funding.

I think that you are correct in saying that the Congress cannot minutely manage the program and should not. It should give good, broad guidelines, without further restrictions that would hurt the program.

Senator GRAHAM. Ms. Stabile?

Ms. STABILE. Would you like for me to respond in general?

Senator GRAHAM. Yes.

Ms. STABILE. All right. There are a number of areas that I think could bear looking into to make the program more usable and to produce more revenue. I think negotiated interest rates would be one area. I think increased staff and resources for property management would move more properties. I think you should review the sale of the vendee loans and also increase the loan guaranty maximum.

There are a number of other areas that I think ought to be looked at also. One is the timing that is utilized to foreclose VA properties. Generally, and I am certainly not opposed to the counseling—I think that is very important; however, I believe my information is correct that generally you will find that most VA loans are foreclosed on somewhere between 9 months and a year from default, trying to give the veteran every opportunity to keep his home. I think in many cases, unless it could be proven otherwise, that the foreclosure should start pretty much the same as the conventional market does, perhaps after 90 days.

And I think if you multiply that times whatever number of foreclosures you have, you have a tremendous amount of money going into maintenance and upkeep of those properties, let alone management. You could save millions of dollars, I believe, doing that. The notice to veterans on release of liability was mentioned earlier, and I think that is another area that really needs attention—and I

know the VA commented extensively on that, and they do go to a lot of effort at the inception of the loan to notify the veteran of his rights and what he should do when he sells his GI loan to subsequent buyer. I believe that a form should be submitted to the veteran when and if he ever does sell his GI loan to a subsequent buyer, bringing it to his attention and making sure he is aware. So, many times instead of that loan remaining a GI loan or VA loan, the veteran would insist that the buyer assume the loan and thereby release himself of the liability to the Veterans' Administration.

I think the counseling would probably save many months of maintenance on homes and would help in the long run. I am not sure what numbers that would be, but I certainly think it would help. And of course, last but not least, the disposition program. We are working very closely with the Veterans' Administration, and I personally have been involved in this program since 1984. In November 1985, the National Association of Realtors and the Veterans' Administration and HUD, as a matter of fact, agreed on the disposition program to be utilized by the two agencies and the association.

I will say to you that we have actively pursued a property disposition program with the Veterans' Administration. I am in constant touch with them. In 1985, we established six test sites to develop a disposition program, to work with realtors across the country, and to develop model programs. And we have developed those sites, and not only have we done that, we have recently—well, we have probably another 22 boards across the country that I am aware of. There may be many more that have also adopted the program to work with VA foreclosures and FHA foreclosures. Now, this program is different from what brokers normally work with, obviously because of the regulations and the administrative authority that the VA and HUD have to deal with.

However, we have recently had—aside from the other boards in the country during the program—a program in April, a regional advisory council meeting, if you will, forming the disposition program in Southern California. We invited 70 boards of realtors to join us to participate in finding out what the program was all about, to see if they would like to join. We had 52 attend that meeting and, as a result, at the end of the program, I asked how many would be interested in forming councils within their districts, and we had 47 responses from board presidents; and I thought that was very encouraging. And as a result of the report of that regional meeting, in our State newsletter from our State association, I have personally received over 160 calls from interested parties; and the National Association has received some 60 calls. So, I think we have a lot of interest.

And I think it is a matter of educating the realtors as well as the area offices of the agencies. I think this is very important; it is a matter of education.

On MLS's each board is an independent entity of an MLS. There are certain national policies and guidelines and rules that the realtors must adhere to in how they can sell VA repossessed properties, as well as FHA. We do have a program to facilitate that use, and many realtors and many boards are not aware of it. It is not the popular, well-known program.

And we have undertaken to educate our realtors across the country, and really we haven't done too badly. Since November of 1985 to date, we have made very good progress. Each board has its own rules and regulations of how they operate their MLS's, aside from the national guidelines. Whether they want to involve themselves in dealing with the disposition program, or not, is an independent decision for each board to make.

VA cannot input their listings into an MLS as the normal listings go because there is not the offer subagency. In other words, if there is not an agent who is responsible for that listing—who other agents can call and say, this is your listing; tell me about it or have questions about it—you must have the offer subagency for those listings to be intermingled with all the other listings as realtors do today.

However, we have made provision and agreement that the VA's properties can be listed and distributed by the MLS system if they are printed separately in the back of the book, in the front of the book, in a separate book, or separately electronically. What has been very successful, as a matter of fact, in San Francisco, has been an electronic bulletin board where realtors who have a modem can access and get all the current information on all listings available and what the status of those listings are. I hope I haven't given you too much information but a little overview of what the program is all about and how we have been working with the Veterans' Administration. We are working very closely weekly and almost daily with Tom Marr out of Director Pedigo's office in Washington, D.C.

Senator GRAHAM. I want to thank each of you for your participation today. It has been very helpful and assisted this new member of the committee and I am certain the total committee with a direction for where we should be putting our priorities. Thank you very much.

Mr. KOELEMIJ. It is a pleasure to be here, Senator.

Ms. STABILE. Thank you.

Senator GRAHAM. Our final panel of witnesses is representing our veterans' organizations. We have Mr. Paul Egan, Deputy Director of the National Legislative Commission, and Mr. Emil W. Naschinski, Assistant Director of The National Economic Commission of The American Legion; Mr. Stephen L. Edmiston, Deputy National Legislative Director of the Disabled American Veterans; Mr. Richard W. Johnson, Jr., Director of Legislative Affairs of the Non Commissioned Officers Association of the United States of America; Mr. Bob Moran, Associate Legislative Director of the Paralyzed Veterans of America; and Mr. Dennis M. Cullinan, Assistant Director of the National Legislative Service of the Veterans of Foreign Wars of the United States.

I welcome each of you here. I express my regrets that at 12:45 I am going to have to leave, but John will assume the chair for the balance of the hearing. I appreciate very much your participation and would like to receive your remarks and comments on statements which have been made by the two previous panels. Mr. Egan?

**STATEMENT OF PAUL S. EGAN, DEPUTY DIRECTOR, NATIONAL
LEGISLATIVE COMMISSION, THE AMERICAN LEGION**

Mr. EGAN. Thank you very much, Senator Graham. Emil Naschinski, who is our Assistant Director, and I will share the allocated time for the purpose of presenting a summary.

First of all, a few general comments. While we don't question in any way the sincerity of each of the organizations represented by the previous panel, we certainly think it is important to recognize that this program is not a bankers' program; it is not a builders' program, nor is it a realtors' program. It is first and foremost a veterans' benefit program.

Therefore, we think that any recommendations this committee approves ought to be clearly tempered by that fact.

First of all, I would like to make a couple of remarks about the sale of portions of the home loan portfolio. That does constitute one of the very few money-generating—income-generating—aspects of the program and the sale of it, we feel, is certainly a bad idea. For the VA to be required to sell portions of its portfolio creates a "fire sale" atmosphere in which it is impossible for VA to get market value for those loans, even if it were desirable to sell portfolio portions. Therefore, we certainly hope that in the ongoing budget negotiations, the Senate recedes to the House on the portion of the budget resolution that would allow some further sales of home loan assets.

Second, we would like to invite this committee's attention to not only the legislation before us today but to legislation that was introduced last Thursday in the House by Representative Marcey Captor, the Chairman of the Veterans' Affairs Subcommittee on Housing and Memorial Affairs. That legislation, H.R. 2672, contains a variety of proposals in addition to those that are before us this morning.

And one of those, we would certainly like this committee to examine—although we support the proposed increase in the home loan guaranty—this particular proposal would go to a flat percentage. And while the percentage that is used in that legislation is 30 percent, we think it should be higher. We think that might solve the problem of periodically having to address the guaranty on an annual or semiannual basis.

And finally, I want to remind this committee of our continuing categorical opposition to the use of adjustable rate mortgages in this program. We think that it requires a gamble on the part of the veteran that is too risky and portends too great a risk of ultimate default and foreclosure.

After having said that, I will turn it over to Emil.

**STATEMENT OF EMIL W. NASCHINSKI, ASSISTANT DIRECTOR,
NATIONAL ECONOMIC COMMISSION, THE AMERICAN LEGION**

Mr. NASCHINSKI. Thank you, Mr. Egan, and thank you, Mr. Chairman. Since my time is limited, I would like to confine my remarks to S. 920, which seeks to amend chapter 37 of title 38 by allowing for negotiated interest rate and increasing the user's fee as well as some other changes. Section 2 of that bill calls for changes

in sections 1803, 1810, 1811, 1819 of title 38, which would take away the Administrator's power to set interest rates on VA loans.

What this bill proposes is that the veteran be allowed to negotiate the interest rate on his or her loan with the lender. Please remember, Mr. Chairman, that the interest rate at present is set by the Administrator and is the maximum amount that can be charged. Lenders are already free to charge a lower interest rate if they so choose. Thus, the effect of this proposal can only be to grant license to lenders to charge higher rates. In addition, in other points of financing, there is a direct correlation between the size of the down payment and the rate of interest that is charged.

In fact, most conventional mortgages require a downpayment of at least 10 percent. We thus believe that the loser would be the first-time home buyer, precisely the person who needs the program the most. Mr. Chairman, it is our belief that if this proposal were adopted, the no downpayment feature of the VA Home Loan Program would be very seriously jeopardized. As you know, there are members of the Administration who have long advocated getting the Federal Government out of the credit market. It would appear to us that, one way of attaining this goal, would be to circumvent the intent of the VA Loan Guaranty Program and making it inaccessible to veterans for whom it was designed. If no downpayments on VA-backed mortgages became the rule, rather than the exception, then we believe that participation in the program would dwindle; once participation became an issue, it would be very easy for the Administration to justify elimination of the program.

Section 3 of this same bill would increase the user's fee from 1 percent to 2.5 percent. The American Legion strongly opposes this provision. We believe that the user's fee is nothing more than a form of taxation, a tax which has been placed on earned entitlement. In our opinion, Mr. Chairman, those entitled to use this program have already paid a very dear price for their eligibility.

Another objection that we have to the user's fee is that it defeats the purpose of the program by creating a disincentive for its users. When a veteran purchases a home, he or she has the option—and I see that my time is up—

Senator GRAHAM. Of course, I would encourage you and all of the other panelists to submit your full statements for the record. Thank you. Mr. Edmiston?

[The prepared statement of Mr. Egan and Mr. Naschinski appears on p. 197.]

STATEMENT OF STEPHEN L. EDMISTON, DEPUTY NATIONAL LEGISLATIVE DIRECTOR, DISABLED AMERICAN VETERANS

Mr. EDMISTON. Thank you, Senator Graham. On behalf of the more than 1 million members of the DAV, may I say how very much we appreciate the invitation to appear here today to provide our views on the VA Home Loan Program and the various bills pending before the committee. The DAV wishes to commend the committee for conducting this hearing and looking closely into the VA Home Loan Program.

To briefly comment on the two bills, S. 9 and S. 920. The two provisions of S. 9 which are the subject of today's hearing, one regard-

ing increasing the maximum home loan amount from \$27,500 to \$36,000. The DAV supports that provision of the bill. With respect to the other provision that would exempt the home loan program from the Gramm-Rudman-Hollings sequestration provisions, the DAV also supports that very strongly, as well as the other exemptions contained in section 8 of the bill.

With respect to S. 920, generally speaking the DAV is strongly opposed to the enactment of the bill in its present form. However, we believe that there are issues worthy of serious consideration contained in that legislation; and our comments with respect to those issues are contained in our written statement.

With that, Mr. Chairman, I will conclude my statement; and again, thank you for the opportunity to be here this morning.

Senator GRAHAM. Thank you very much. We appreciate the succinctness of your remarks. Mr. Johnson?

[The prepared statement of Mr. Edmiston appears on p. 211.]

STATEMENT OF RICHARD W. JOHNSON, JR., DIRECTOR OF LEGISLATIVE AFFAIRS, NON COMMISSIONED OFFICERS ASSOCIATION OF THE UNITED STATES OF AMERICA

Mr. JOHNSON. Thank you, Mr. Chairman. I will try to be as brief as my colleagues. Rather than comment on the legislation under consideration this morning, I would like to just make a couple of observations on the program.

One, which we have devoted a great deal of emphasis on in our prepared text, is that there is no codified purpose for the VA Loan Guaranty Program; and as a result, people tend to get a little afield from what the purposes of the program really are, in making amendments to that program.

Those purposes are fairly straightforward. One is to assist the veteran in buying a home. It has worked 12 million times in the past 40 years; and as a result, it has increased the tax base of the country by some \$275 billion. To assist the veteran in retaining the home is a second purpose; and unfortunately, that hasn't worked quite as well, judging from the default rates, but there are ways to make improvements in that. The third basic purpose of the program is to manage the program effectively to minimize its cost, not to run a program at no cost to the Government, but to manage the program effectively to minimize its costs.

Currently, the VA Loan Guaranty Program costs about \$100 per veteran served. I think the figure is actually \$89 per veteran served, yet we charge veterans fees of 1 percent of the loan value for participating in the program, a profit that is essentially going into the Loan Guaranty Revolving Fund, making this program a veterans helping veterans program.

And that is reaching a little bit beyond the scope of what the program was originally intended to do: help the veteran buy the home, assist the veteran in maintaining the home, and manage the program at a minimum cost to Government.

We ask that those purposes of the program be codified. We ask that any change made in the program be measured against those purposes.

In conclusion, I would also like to point out that we believe that the Veterans' Administration can do a better job of counseling. We note from prior testimony offered by the General Accounting Office that the only routine counseling given to veterans who are facing foreclosure is that which concerns establishing a repayment schedule that the veteran can meet. And there are many alternatives, refunding the loan, refinancing the loan, voluntary deeds, and home sale—which is often not considered as an alternative to facing foreclosure. We are also impressed by a program in the House bill which would provide a series of bridge loans to those veterans who are trying to recover from an interruption in their income which has kept them from making a house payment and pushed them near foreclosure.

With those comments, Mr. Chairman, I will conclude my remarks. I appreciate the opportunity to be here today on behalf of the NCOA.

Senator GRAHAM. Good. Thank you, Mr. Johnson.

Mr. Moran?

[The prepared statement of Mr. Johnson appears on p. 221.]

**STATEMENT OF BOB MORAN, ASSOCIATE LEGISLATIVE
DIRECTOR, PARALYZED VETERANS OF AMERICA**

Mr. MORAN. Thank you, Senator Graham. On behalf of our members, we appreciate the opportunity to be here. I will summarize. Initially, I would like to extend PVA's appreciation to the Chairman of the committee and the members of the committee for their efforts to improve the effectiveness of the Veterans' Administration Home Loan Guaranty Program.

PVA applauds the Chairman and the cosponsors for introduction of S. 9, which increases the maximum guaranty permissible for VA guaranteed home loans and exempts the VA Home Loan Guaranty Program from sequestration.

The last time the VA home loan guaranty amount was increased was in October of 1980, and housing costs since then have dramatically risen; and in recognizing these escalating costs associated with housing today, PVA supports the increase in the maximum amount of the VA loan guaranty.

One other provision contained in S. 9 which PVA supports would exempt the Home Loan Guaranty Program from sequestration. Mr. Chairman, legislation introduced at the request of the Administration, S. 920, includes various provisions concerning the VA's Home Loan Guaranty Program, and I will comment briefly on just two of those provisions.

First, a provision that removes the expiration date for the no-bid formula contained in the Deficit Reduction Act, which allows the VA the flexibility to exercise the most financially prudent disposition of foreclosed properties. We support the extension of that no-bid option.

Also contained in S. 920 is a provision that eliminates the fixed interest rate on VA guaranteed loans. PVA opposes the provision of negotiated interest rates. PVA also supports H. Con. Res. 79 which expresses the sense of Congress that the 1 percent fee imposed on VA guaranteed home loans should not be increased.

And lastly, I will comment on H.R. 1452 introduced by Congressman Marvin Leath. It is a bill which will change the current law to allow active duty personnel to refinance through VA, and PVA supports that bill.

And again, thank you, Mr. Chairman.

Senator GRAHAM. Thank you very much, Mr. Moran. Mr. Cullinan?

[The prepared statement of Mr. Moran appears on p. 236.]

STATEMENT OF DENNIS M. CULLINAN, ASSISTANT DIRECTOR, NATIONAL LEGISLATIVE SERVICE, VETERANS OF FOREIGN WARS OF THE UNITED STATES

Mr. CULLINAN. Thank you, Senator. I will begin by thanking you and the Chairman and other members of this committee for this opportunity to present the views of the Veterans of Foreign Wars with respect to the number of legislative proposals pertaining to the VA Home Loan Program.

The VFW is committed to maintaining and improving the operation of this tremendously beneficial program. Given that a large number of legislative initiatives affecting the program must be addressed within the 5 minutes allowed for discussion, our comments or these proposals will be succinct.

Section 6 of S. 9 would amend title 38 to increase the maximum amount of the home loan which may be guaranteed by the VA. The guaranty maximum would be increased from \$27,500 to \$36,000. This raise in the loan guaranty cap would certainly be appropriate in light of the fact that the national median price for a new home has been estimated to be in excess of \$91,000, and this median figure is well above \$100,000 in certain high-priced housing markets such as Washington.

Thus, the VFW supports this increase since it would better allow the VA Loan Guaranty Program to help veterans become homeowners. We would also like to take this opportunity to briefly address the provisions contained in H.R. 2672, which was recently introduced, that would remove the loan guaranty ceiling and replace it with a uniform guaranty of 30 percent for single-family homes.

This would certainly help the veteran who wishes to purchase a home in a high-cost area. It would also establish a uniform policy on veterans' debts which accrue when foreclosure occurs. It would also eliminate the situation where a veteran with a very small loan could end up with as large a debt as a veteran with a very large loan in the event of foreclosure. The VFW believes that the current cap is indeed too low.

Section 8 of S. 9 would allow creating exemptions for certain other veterans' programs from sequestration, and provide exemption for the VA's Home Loan Guaranty Program under Gramm-Rudman-Hollings. The VFW supports this provision.

Section 2 of S. 920 would repeal the authority of the Administrator to set the maximum interest rate which veterans may pay on a VA guaranteed home loan. The VFW strongly opposes this proposal since the individual veteran would be pitted against the entire banking community with regard to negotiating an advantageous in-

terest rate, and there can be little doubt that it is not the veteran who will come away the winner.

Another point: the VA home loan interest maximum serves as a benchmark for the rest of the mortgage banking industry, and its elimination would most certainly result in precipitous and harmful fluctuations. Section 3 of S. 920 would increase the fee for obtaining the home loan from 1 percent to 2.5 percent for loans closed on or after June 1, 1987. The VFW strongly opposes this proposal since it would serve to increase what we consider to be an already unfair tax assessed on veterans and would further serve to disallow veterans from participating in the program.

Section 4 of this bill would authorize direct appropriations to the Loan Guaranty Revolving Fund. Since such an appropriation could conceivably be necessary in the future and given that the current procedure under law is unnecessarily complicated, the VFW has no objection to this provision, which would permit additional flexibility in managing the needs of the Loan Guaranty Revolving Fund.

Section 5 would delete the requirement that VA's standards for manufactured home site include requirements to encourage the development of attractive residential areas. The VFW cannot envision how eliminating these VA standards would serve as a national standard could possibly be of benefit to the veteran, and we therefore oppose this provision.

Section 5 would also permit the VA to suspend from participation in the VA program of manufactured homes engaged in actions unfair or prejudicial to veterans or the Government.

The VFW supports this provision. The language which removes reference to the inspections, which the draft bill proposes to eliminate, is—as has already been indicated—opposed by the Veterans of Foreign Wars.

Section 5 of S. 920 would repeal certain manufactured home loan requirements. It would repeal the requirement that the VA inspect the manufacturing process of the manufactured homes and conduct onsite inspections of such units purchased with VA financing and that a manufactured home that displays a Certificate of Conformity would be eligible for purchase with a VA loan. The VFW opposes this proposal in light of the fact that this industry has been rocked with scandal involving invoice padding and other fraudulent practices.

Thus, we believe any reduction in VA oversight of this industry could only serve to the veterans' detriment.

I see my time has expired. Thank you, Senator.

Senator GRAHAM. Thank you very much.

[The prepared statement of Mr. Cullinan appears on p. 242.]

Senator GRAHAM. I appreciate the thoughtful remarks that have been made by each of you, and I look forward to reviewing the complete statements that will be submitted for the record. As indicated earlier, I apologize that I must leave at this time. Counsel further questions that they would like to explore. I thank you for your participation, and we would appreciate your responses to those questions which will be placed. Thank you very much.

Mr. STEINBERG. Thank you very much, Senator Graham. Senator Cranston has asked me to thank each of your organizations for your responses following our committee's February budget hearing

to various proposals that the housing industry witnesses put forward at that point. And, as indicated, we appreciate your responses, and we will make those written responses a part of this hearing record as well. We would also appreciate your providing written comments on the legislative initiative regarding refinancing and assumption of VA guaranteed loans, which both Senators Cranston and Graham outlined earlier this morning.

If you look at Senator Cranston's prepared written statement, which I believe each of you has a copy of—if you don't, it is on the witness table—we would appreciate your responding to aspects of that. As Senator Cranston indicated, there is an initiative which Senator Murkowski and Senator Cranston are developing jointly to be presented to the committee in the near future, and we would appreciate your input on that.

I want to note specifically that we have submitted an extensive number of written questions to the Veterans' Administration, including quite a number that derive from specific points made in some of your testimony. So, we have already followed up on a number of the recommendations or concerns that you have expressed.

Now, there are several questions that we would appreciate each of you responding to. Both the VA in its testimony and the mortgage bankers in theirs testified that they have no objections to the imposition of a one-half percent fee on the buyer to be deposited in the Loan Guaranty Revolving Fund whenever a VA guaranteed loan is assumed. What would the position of each of your organizations be on that? Dick, would you like to start?

Mr. JOHNSON. The Non Commissioned Officers Association, as we have said in our prepared remarks, is universally opposed to fees. Fees were supposed to have been a temporary animal created 3 years ago—4 years ago almost—to get the program through some rough times. Unfortunately, they are n beginninging to look more and more permanent every day.

A fee on an assumption is a particularly grievous animal because it is something that is going to ultimately come out of the veterans' end. Either it is going to come out of the proceeds of the sale or the sale price of the house is going to be reduced to pay the fee. So, essentially, any veteran who buys a home is going to pay the fee and he is going to pay that fee on assumption. Most unfortunate to the VA is the low cost of assumption in real terms. It is only a \$100 cost to the VA in processing the original loan. We don't believe that fees are appropriate at all. And we certainly wouldn't support it on assumptions.

Mr. STEINBERG. Bob?

Mr. MORAN. Yes, Jon. At PVA, we don't have a position, but I think I could associate myself or my remarks with Mr. Johnson as far as the fee.

Mr. STEINBERG. Dennis?

Mr. CULLINAN. The VFW is also leary of fees; however, in the case of the 1 percent to be charged in the event of an assumption, we wouldn't oppose it since we do recognize it as being a means whereby a nonveteran would be required to make a contribution in what is essentially a veterans' program.

Mr. STEINBERG. Steve?

Mr. EDMISTON. While the DAV has no official position on it, if veterans are required to pay an origination fee, we have no problem with the same fee being levied on an assumption, recognizing of course what Mr. Johnson said as to the validity. At this point, I think if there are going to be fees charged, it should be across the board.

Mr. STEINBERG. Whomever of you would like to answer for The American Legion?

Mr. EGAN. Thank you, Jon. We draw a clear distinction between the tax that is imposed on veterans when they borrow and have a guarantee because that tax pays for nothing. On the other hand, someone who purchases an assumption gets the benefit of a lower interest rate—a lower market interest rate. We therefore are certainly prepared not only to support one-half percent but even a full percent.

Mr. STEINBERG. Thank you, Paul. We will start with The Legion this time and work back. What would each of your organization's position be on the increase of the vendee fee to 2 percent while not increasing the GI loan fee, but letting that remain at 1 percent? You were here, I think, when Senator Graham had quite an extended dialogue with Mr. Pedigo about that. So, the question is: What would be the position of your organization on increasing the vendee loan fee from 1 to 2 percent, leaving the GI loan fee at one percent?

Mr. EGAN. It is a little difficult to answer that question, Jon, simply because it is hard to know whether or not a full 2 percent would detract from the VA's ability to make those vendee loans to market those properties. Those properties in the inventory of foreclosed properties certainly need to be marketed as quickly as possible.

And so, without knowing just exactly what effect that increase to 2 percent would mean to the ability of the VA to market those properties, it is a little difficult to make a categorical answer.

Mr. STEINBERG. Steve?

Mr. EDMISTON. Jon, I couldn't really give a specific response to that question. We would be more than happy to get back to you on it, though.

Mr. STEINBERG. That would be fine. Thank you.

Mr. STEINBERG. Dennis?

Mr. CULLINAN. Jon, we have testified on that in the past, and our concern is still the same, that increasing that fee to 2 percent would have an overly chilling effect on the vendee program and would serve to the detriment of the program.

Mr. STEINBERG. Bob?

Mr. MORAN. We don't have a position.

Mr. STEINBERG. That would be great. Dick?

Mr. JOHNSON. I guess, Jon, the best thing for me to do would be to get back to you on that.

Mr. STEINBERG. That would be fine. Paul, in that regard, in the first half of The American Legion's testimony, reference was made to urging the Senate to yield to the House in conference regarding requirements in connection with the sale of VA properties. I am somewhat unclear on what you may be referring to unless you are talking about a reconciliation instruction, which is in the Senate-

passed resolution for this committee to produce savings in fiscal year 1988 of \$56 million and appropriate figures thereafter. Now, of course, that does not require—if indeed it is enacted in the budget resolution—this committee to take any particular action; but I take it that is what you are referring to and the percentage changes that the VA has proposed in the cash sales in that situation. Is that right?

Mr. EGAN. That is my understanding; and it is my further understanding that if it becomes ultimately a part of the final approved version of the budget resolution, that if it is part of the reconciliation instructions, it was my impression that that was required of this committee.

Mr. STEINBERG. No. The only thing that is required is legislation to produce those specified amounts of savings, not that that particular proposal be adopted.

That leads me to the question that I would like to pose to each of you, and it is sort of a contingent question, which hopefully we will have an answer to in the relatively near future when a budget resolution is adopted. Let us assume that we are reconciled in the fashion proposed in S. 920, which means this committee either reports legislation making those savings or the option remains for the Budget Committee, when we fail to do so, to insert legislation making those savings on the floor, one of which I would almost certainly think would be the proposal we just discussed since the Budget Committee was making that assumption; but of course, it is not binding.

If you oppose the increase in cash sales that would be mandated by the Administration proposal in S. 920, what the committee would like to know is what would your alternatives be to achieve the required level of 3-year savings? I am not asking you to give us that today, but what would your alternatives be for us to come up with that amount of savings, particularly the \$56 million in 1988? I mean, that is the target year we have to focus on since there would be declining savings after that required of us.

The contingent question that I am going to pose to you is: When we find out whether there are any reconciliation savings in the budget resolution, we would appreciate hearing from you as soon as possible as to how you think we should go about meeting those requirements, recognizing that our defaulting in recommending legislation to the Budget Committee would very likely have the effect of having the cash sales minimum increased. So, we would appreciate your participation in the efforts that we have to make to weigh all of the programs before us and figure out how to make those savings. In that regard, that is obviously one of the principal reasons that we have raised the issue of a fee on assumptions and an increase in the vendee loan fee on the theory that that might be a better result for the program than the cash sales increase. We are not asking you to comment on those alternatives at this point because we think that is something that you will want to mull over and share with us in writing.

So, we would appreciate your considering those two options and any others that don't have to necessarily be in the loan guaranty area. They can obviously be in any other area where we would be making savings in entitlements.

If any of you feel the urge to comment at this time, however, I wouldn't want to suppress you. Tony, I am going to yield in a moment if you have questions.

Mr. PRINCIPI. I have just a few.

Mr. STEINBERG. I will just finish a few. I think each of you has seen the prepared testimony of the mortgage bankers at this hearing and at the February hearing and other testimony submitted by the housing industry panel. I think that Paul had some rather eloquent comments with respect to that at the outset of his remarks. It is a fact, however, that the mortgage bankers who are making the vast majority of loans are taking the position that if the no-bid formula remains as it is, there are going to be two rather serious results. It is going to vary by area, but, first, a number of mortgage bankers are going to refuse to participate in the program. And, second, for those who do participate, increasingly stringent credit-worthiness requirements will be imposed by them in order to make sure that they are left with as few properties as possible under the no-bid formula.

It seems obvious to me, from the testimony of each of your organizations, that you do not find those predictions credible because I haven't seen anything in the testimony of any of your organizations, either now or in February, which suggests that you are concerned about major curtailments in the Loan Guaranty Program. Do I make a correct inference in that regard?

Mr. EGAN. I think not, speaking for The American Legion. I think we were fairly clear in our responses to the questions and followup to the February hearing just exactly what we thought about some of those proposals. Clearly, there is a problem with the no-bid situation; and certainly, we take seriously the bankers' threat that the attractiveness in dealing with veterans is somehow deteriorated if the VA doesn't continue to acquire foreclosed properties.

Mr. STEINBERG. I think I used the word "prediction," but you may call it a threat if you wish.

Mr. EGAN. We take that very seriously. We take that very seriously; and as I said in the opening remarks summarizing our statement, any proposal—and we look at it the same way—any proposal regarding this program has to be tempered by the fact that this is a veterans' benefit program. Now, for example, the mortgage bankers think it is very important that interest accumulated in the process of foreclosure not be counted when VA calculates for the purpose of determining whether or not a property is to be acquired or whether the guaranty is going to be paid.

There is a proposal in the House bill that we find relatively attractive, which says that in the event that there is a delay in that process because the VA has requested it in the interest of forbearance, that the VA not calculate that accumulated interest in exchange for the VA's acquiring the property ultimately; the bankers shouldn't expect to be repaid for that accumulated interest. We think that is a reasonable, fair way of going about it.

Mr. STEINBERG. Is that the only proposal of all that they have made that you find acceptable?

Mr. EGAN. Without having all of their proposals immediately in front of me, it is a little difficult to say.

Mr. STEINBERG. That is my recollection from your response, but we certainly can let the record speak for itself on that. Preliminarily, we tend to concur with that particular position as well. Steve, do you have any comment on the extent to which your organization is concerned about the predictions or threats, depending upon how you wish to view it, that—

Mr. EGAN. Maybe I should first of all correct the record to show that I meant to say "prediction."

Mr. STEINBERG. All right.

Mr. EDMISTON. We have heard that, and we don't have a specific comment. We would agree that the program has its problems, and the mortgage bankers are in the business of making money and have supported the program through their institutions. I think that we would find it. I guess, a concern that they would have more stringent credit requirements, where they have less stringent credit requirements today for veterans' loans than they do for other loans. DAV has no problem with requiring a veteran to be creditworthy in order to utilize the VA Home Loan Program.

Mr. STEINBERG. I think their answer would be that they do have different credit standards because of no downpayment loans, and that changes the equity relationship that a veteran has under the normal conventional loans that they may be financing. Therefore, the veteran needs to have less money available if he is making no downpayment than if he is making a downpayment. I think they would say something like that—that there are different criteria that are available, different income ratios that are applicable when you have a no-downpayment loan than when you have a downpayment loan. Dennis?

Mr. CULLINAN. Yes, we would like to comment on that. I think that it is evident that the VFW continues to be highly concerned with the welfare of the program. Mr. French made a musical allusion to the fact that "we make the loans" and indicated their dissatisfaction with the VA's current handling of the no-bid contracts. He also pointed out that, down the road, it is conceivable that loans may not be made to veterans. However, we would point out that, in those areas having the greatest problems with veterans' loans, they are having the greatest problems with other loans as well and that the VA loans are guaranteed, affording bankers an additional degree of protection. Furthermore, I don't think that the mortgage bankers should be telling the VA how they should be running their program.

Mr. STEINBERG. Bob?

Mr. MORAN. Whether it is concern or a threat, I think the mortgage bankers related this to us last year on the House side; whether it be concern or threat, I am not too surprised. I find it somewhat ironic, though, that if we represent the veterans who are going to the lenders to get the loans that they maybe should take the time to listen to us as we did them today. So, whether it be a concern or threat, I am not too concerned about it.

Mr. STEINBERG. Dick?

Mr. JOHNSON. The mortgage bankers have to be taken seriously, but we also have to realize that the mortgage bankers are facing something of a Hobson's choice. It is the first horse out of the stable or none at all. They can't afford to ignore a program the size

of the Veterans' Administration Loan Guaranty Program, at least not for long. They continue to write the kind of business that they have been writing. They are faced with very much the same kinds of problems that the veteran is in trying to qualify folks for a loan. So, they are searching for alternatives; and unfortunately, they have chosen to suggest that they may quit writing VA loans. I don't think that will happen. Among the alternatives they are searching for are adjustable rate mortgages, but they are searching for all kinds of ways—wraparounds and, a few years ago, they had graduated payment mortgages, and so on and so forth. They are looking for alternatives, just the same way that everybody else in this room is looking for alternatives. They have to be taken seriously, but I don't think that it is something that is going to put the program out of business.

At the same time, as far as NCOA is concerned, we believe that the mortgage bankers can share a little more of the burden. We have recommended in our statement that we remove the \$27,500 cap in favor of endorsing a 30 percent guaranty, fixed guaranty level, on all loans. That does a couple of things. It creates a timely program. You don't have to worry about adjusting a cap like \$27,500 on an annual or biannual basis. At the same time, it allows that mortgage banker to share a little more of the liabilities on the lower loans, which is where most of the money is lost, and it opens the program up to an all together new group of veterans to participate. Most of the losses in this program are on loans under \$70,000, and \$27,500 is a tremendous amount of insurance to provide a mortgage banker against a Government banked security.

Mr. STEINBERG. Tony, thank you for your patience.

Mr. PRINCIPI. Just a quick observation and then perhaps a question or two. I want to commend you for your testimony; and as is the custom around here, you have come last which is a benefit to the majority's side. As Paul so eloquently stated this is first and foremost a veterans' program—partnership perhaps with the private sector—an important partnership—but I think the interests of the veterans really have to be foremost in the members' minds. And I certainly hope that will be the case.

I am worried when I hear words to the effect that all this might be a panacea for veterans. I am not sure that the defaults would be significantly higher if veterans had the choice to have ARMs. Back in 1977 and 1978, those ARMs that might have started in the single digits could very, very possibly be in the middle double digits right now, at 13 and 14 percent; and how that would benefit the veterans, I am not quite sure. I do know it may benefit realtors who are trying to sell properties quickly, and it may benefit builders who are trying to sell properties and not pay the costs associated with a VA home loan.

But I think again what you have stated with regard to veterans has to be the first consideration. And the cost has been significant. I know that you, Dick, made mention of about \$100 per veteran, or a little bit less. On 12 million loans, that equates to \$1.2 billion. Figures that the VA furnished us are a little bit higher, \$2.2 billion since 1978.

My question to you is—and perhaps, Dick, you can lead off: How should this cost be allocated? I think the greatest threat to the pro-

gram is the staggering costs that we are seeing and the appropriations that have to be made to keep the program afloat. Is \$2.2 billion since 1978 getting to the point where some changes have to be made in the program; and if so, what kinds of changes? You alluded to the loan origination fee, for example.

Mr. JOHNSON. I go back to my statement and rely on what I have said in my statement. We believe that the losses and the appropriations required in the program have come as a result of the loan sale policy established in management of the VA portfolio in the early 1970s. The Office of Management and Budget recognized that they could show an income by selling assets of the Veterans' Administration loan guaranty portfolio, albeit a paper income, it showed as black numbers on a spreadsheet. When the Veterans' Administration began liquidating those loans under that policy, began selling off their portfolio, they were giving up future income—income which to that point had been supporting the program.

The answer to this, in our belief, is to rebuild that portfolio, to rely on the income from that portfolio to once again support the program. But to do that is going to take appropriations, and it is going to take a lot of forbearance on the part of Congress and probably about 10 years. We believe—sincerely believe—that the program can again become self-supporting if the assets of the portfolio are rebuilt and if it is allowed to run in that manner, which has been a profitmaking manner.

Mr. PRINCIPI. Bob?

Mr. MORAN. No comment.

Mr. PRINCIPI. Dennis?

Mr. CULLINAN. The VFW would essentially agree with all that was stated just now by Mr. Johnson. We believe further that selling off the portfolio would be a money loser in the long term, although it may provide a short-term fix. In addition, we want to again emphasize the point that it is a veterans' benefit program; and as is the case with many benefit programs, it doesn't always make a profit. However, the VA Loan Guaranty Program for many years did. I believe it has come to be viewed that making a profit is a necessity, but that really isn't so.

Mr. EDMISTON. Tony, I would agree with what Dick was saying; but I think in addition to that there are other factors that contributed during this time period to the problems in the program. And I think that now is an appropriate time to take a look at the program. Some of the inherent problems have surfaced as a result, and it would be an appropriate time to address some of those areas. We have made some specific recommendations in our statement.

Mr. EGAN. Speaking of the loan portfolio, I think it is just so critically important to recognize the damage that the loss of significant portions of that program in the early 1980s had for this program and its inability, therefore, to be prepared to handle the losses that were derived from that recession we had. I agree that one of the most immediate problems that Congress faces is how to build a program while simultaneously finding immediate short-term savings? In the case of the portfolio, it was unfortunate at the time that a portion of it was lost at the expense of long-term solvency.

I am inclined to agree—although I am not optimistic that it is going to happen—that that portfolio needs to be rebuilt. It needs to be rebuilt to the extent that the Revolving Fund can be as self-sufficient as possible. I think some particular problems with the program have to do with what we regard as some basic mismanagement of the program through the toughest years in its entire life, throughout the immediate aftermath of that recession. When foreclosure rates were high, nothing was really being done to treat the program as if it were an emergency; it was just as if it were on automatic pilot.

Enough was not done to market those properties. It is just terribly unfortunate that it is not the program fundamentally that is at fault.

Mr. PRINCIPI. One further question. I have heard figures that in the manufactured housing section of this program the losses account for almost 20 percent of the total losses of the VA Home Loan Program. 17 or 18 percent arise as a result of defaults and foreclosures on manufactured houses. Mr. French spoke of depreciation; when these houses are driven off the manufacturers' lots, they do in fact depreciate. Have your organizations given any consideration to reforms or tightening up, or any way that the VA Home Loan Program should be improved, as it pertains to manufactured housing, as opposed to your normal fixed dwelling? Dick?

Mr. JOHNSON. The manufactured housing industry serves a group of veterans who buy by circumstance, by income, by education level, and can afford no better or, in fact, desire no better. They are entitled to a Loan Guaranty Program, just the same as veterans who are more able to afford stick-built housing of finer quality. It is unfortunate that manufactured housing loans contribute to major losses.

We have looked at the situation, and quite frankly, we have come up empty. We just cannot seem to come to grips with the problem in any way that is equitable to the veteran who participates in the program by economic necessity. We just can't seem to come to grips with any kind of solution.

If we do, you will be the first to know.

Mr. PRINCIPI. Any other comments?

[No response.]

Mr. PRINCIPI. Thank you.

Mr. STEINBERG. Thank you, Tony. Let me finally urge each of you to submit in writing any comments that you have on any of the testimony that occurred earlier this morning in terms of the exchanges of questions between the representatives and the VA, the housing industry panel, et cetera. We would welcome any supplementation of your prepared statements on issues that arose this morning that perhaps you did not have an opportunity to comment on. If you would get those comments to us by June 26—a week from this Friday—we would very much appreciate it. And could you, if you are going to submit comments, let us know that you will be submitting them?

We thank you very much for your patience and your presence here. These hearings stand adjourned.

[Whereupon, at 1:20 p.m., the hearing was concluded.]

APPENDIX

II

100TH CONGRESS
1ST SESSION

S. 9

To amend title 38, United States Code, to increase the rates of disability compensation and dependency and indemnity compensation for veterans and survivors; to provide additional eligibility for certain educational or rehabilitation assistance to veterans and other eligible individuals with drug or alcohol abuse disabilities; to increase the maximum amount of a home loan which is guaranteed by the Veterans' Administration; to improve housing, automobile, and burial assistance programs for service-disabled veterans; and to extend and establish certain exemptions from sequestration for certain veterans' benefits; and for other purposes.

IN THE SENATE OF THE UNITED STATES

JANUARY 6, 1987

Mr. CRANSTON (for himself, Mr. MATSUNAGA, Mr. DeCONCINI, Mr. MITCHELL, Mr. ROCKEFELLER, Mr. GRAHAM, and Mr. LAUTENBERG) introduced the following bill; which was read twice and referred to the Committee on Veterans' Affairs

A BILL

To amend title 38, United States Code, to increase the rates of disability compensation and dependency and indemnity compensation for veterans and survivors; to provide additional eligibility for certain educational or rehabilitation assistance to veterans and other eligible individuals with drug or alcohol abuse disabilities; to increase the maximum amount of a home loan which is guaranteed by the Veterans' Administration; to improve housing, automobile, and burial assistance programs for service-disabled veterans; and to

extend and establish certain exemptions from sequestration for certain veterans' benefits; and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; REFERENCES TO TITLE 38, UNITED**
4 **STATES CODE.**

5 (a) This Act may be cited as the "Service-Disabled Vet-
6 erans' Benefits Improvement Act of 1987".

7 (b) Except as otherwise expressly provided, whenever in
8 this Act an amendment or repeal is expressed in terms of an
9 amendment to, or repeal of, a section or other provision, the
10 reference shall be considered to be made to a section or other
11 provision of title 38, United State Code.

12 **SEC. 2. DISABILITY COMPENSATION AND DEPENDENCY AND**
13 **INDEMNITY COMPENSATION RATE INCREASES.**

14 (a) **IN GENERAL.**—(1) The Administrator of Veterans'
15 Affairs shall, as provided in paragraph (2), increase, effective
16 December 1, 1987, the rates of and limitations on Veterans'
17 Administration disability compensation and dependency and
18 indemnity compensation.

19 (2)(A) In the case of each of the rates and limitations in
20 sections 314, 315(1), 362, 411, 413, and 414 of title 38,
21 United States Code, that were increased by amendments
22 made by title I of the Veterans' Compensation Rate Increase
23 and Job Training Amendments of 1985 (Public Law 99-
24 238), the Administrator shall further increase such rates and

1 limitations, as in effect on November 30, 1987, by the same
2 percentage that benefit amounts payable under title II of the
3 Social Security Act (42 U.S.C. 401 et seq.) are increased
4 effective December 1, 1987, as a result of a determination,
5 under section 215(i) of such Act (42 U.S.C. 415(i)).

6 (B) In the computation of increased rates and limitations
7 pursuant to subparagraph (A), amounts of \$0.50 or more
8 shall be rounded to the next higher dollar amount and
9 amounts of less than \$0.50 shall be rounded to the next
10 lower dollar amount.

11 (b) SPECIAL RULE.—The Administrator may adjust ad-
12 ministratively, consistent with the increases made under sub-
13 section (a), the rates of disability compensation payable to
14 persons within the purview of section 10 of Public Law 85-
15 857 who are not in receipt of compensation payable pursuant
16 to chapter 11 of title 38, United States Code.

17 (c) PUBLICATION REQUIREMENT.—At the same time
18 as the matters specified in section 215(i)(2)(D) of the Social
19 Security Act (42 U.S.C. 415(i)(2)(D)) are required to be pub-
20 lished by reason of a determination made under section 215(i)
21 of such Act during fiscal year 1988, the Administrator shall
22 publish in the Federal Register the rates and limitations
23 being increased under this section and the rates and limita-
24 tions as so increased.

1 SEC. 3. SPECIALLY ADAPTED HOUSING ASSISTANCE.

2 (a) INCREASE IN MAXIMUM GRANTS.—Section 802 is
3 amended—

4 (1) in subsection (a), by striking out “\$35,500”
5 and inserting in lieu thereof “\$40,000”; and

6 (2) in subsection (b), by striking out “\$6,000” and
7 inserting in lieu thereof “\$6,775”.

8 (b) EFFECTIVE DATE.—The amendments made by this
9 section shall take effect on October 1, 1987.

10 SEC. 4. SERVICE-CONNECTED DEATH BENEFITS.

11 (a) INCREASE IN MAXIMUM BURIAL AND FUNERAL
12 EXPENSES AWARD.—Section 907 is amended by striking
13 out “\$1,100” and inserting in lieu thereof “\$2,250”.

14 (b) EFFECTIVE DATE.—The amendment made by this
15 section shall take effect on October 1, 1987.

16 SEC. 5. TOLLING EDUCATIONAL AND REHABILITATION AS-
17 SISTANCE DELIMITING PERIODS BY REASON
18 OF INCAPACITY DUE TO DRUG OR ALCOHOL
19 CONDITIONS.

20 (a) EDUCATIONAL ASSISTANCE FOR MEMBERS OF THE
21 ALL-VOLUNTEER FORCE.—Section 1431(d) is amended—

22 (1) by inserting “(1)” before “In”;

23 (2) by inserting at the end the following new paragraph:

24 “(2)(A) A condition referred to in paragraph (1) of this
25 subsection is an alcohol or drug dependence or abuse condi-
26 tion of an eligible individual in a case in which it is deter-

1 mined, under regulations which the Administrator shall pre-
2 scribe, that—

3 “(i) such individual has received recognized treat-
4 ment or participated in a program of rehabilitation for
5 the condition, and

6 “(ii) the condition is sufficiently under control to
7 enable such individual to pursue such individual’s
8 chosen program of education under this chapter,

9 “(B)(i) Notwithstanding the provisions of paragraph (1)
10 of this subsection, an eligible individual’s application for and
11 extension of the ten year period for use of entitlement under
12 this chapter because of such a condition may be granted if
13 such individual files an application for the extension not later
14 than one year after whichever of the following last occurs:

15 “(I) The last date of the delimiting period other-
16 wise applicable under this section.

17 “(II) The termination of the last period of such
18 treatment or such program of rehabilitation.

19 “(III) The date on which final regulations pre-
20 scribed pursuant to subparagraph (A) of this paragraph
21 are published in the Federal Register.

22 “(ii) The period of time during which, based on the ex-
23 istence of such a condition, such ten-year period does not run
24 shall not exceed the lesser of—

1 “(I) the period during which the eligible individual
2 was receiving treatment or participating in a program
3 of rehabilitation for the condition plus such additional
4 length of time as such individual demonstrates, to the
5 satisfaction of the Administrator, that such individual
6 was prevented by the condition from initiating or com-
7 pleting such program of education, or

8 “(II) four years.

9 “(iii) When such an extension is granted, the ten-year
10 period with respect to such individual will again begin run-
11 ning on whichever of the following first occurs—

12 “(I) the first day, following the condition becom-
13 ing sufficiently under control to enable such individual
14 to pursue such individual's chosen program of educa-
15 tion under this chapter, on which it is reasonably feasi-
16 ble, as determined in accordance with such regulations,
17 for such individual to initiate or resume pursuit of a
18 program of education with educational assistance under
19 this chapter, or

20 “(II) the day after the fourth year of the ex-
21 tension.”.

22 (b) PROGRAMS OF REHABILITATION FOR VETERANS
23 WITH SERVICE-CONNECTED DISABILITIES.—Section
24 1503(b) (1) is amended—

25 (1) by inserting “(A)” before “In”;

1 (2) by inserting "(other than a condition described
2 in subparagraph (B) (ii) of this paragraph)" after "med-
3 ical condition" in subparagraph (A), as so redesignated;
4 and

5 (3) by inserting at the end the following new sub-
6 paragraph:

7 "(B)(i) Subject to clauses (iii) and (iv) of this subpara-
8 graph, in any case in which the Administrator determines,
9 under regulations which the Administrator shall prescribe,
10 that a veteran has been prevented from participating in a
11 vocational rehabilitation program under this chapter within
12 the period of eligibility prescribed in subsection (a) of this
13 section because a condition described in clause (ii) of this sub-
14 paragraph made it infeasible for the veteran to participate in
15 such a program, the twelve-year period of eligibility shall not
16 run during the period of time that the veteran was so pre-
17 vented from participating in such a program.

18 "(ii) A condition referred to in clause (i) of this subpara-
19 graph is an alcohol or drug dependence or abuse condition of
20 a veteran in a case in which it is determined, under regula-
21 tions which the Administrator shall prescribe, that—

22 "(I) the veteran has received recognized treat-
23 ment or has participated in a program of rehabilitation
24 for the condition, and

1 “(II) the condition is sufficiently under control to
2 enable the veteran to participate in a vocational reha-
3 bilitation program under this chapter.

4 “(iii) Clause (i) of this subparagraph applies only if the
5 veteran has filed an application under this paragraph not
6 later than one year after whichever of the following last
7 occurs:

8 “(I) The last date of the period of eligibility other-
9 wise applicable under this section.

10 “(II) The termination of the last period of such
11 treatment or such program of rehabilitation.

12 “(III) The date on which final regulations pre-
13 scribed pursuant to clause (i) of this subparagraph are
14 published in the Federal Register.

15 “(v) The period of time during which, pursuant to clause
16 (i) of this subparagraph, the twelve-year period of eligibility
17 does not run shall not exceed the lesser of—

18 “(I) the period during which the veteran was re-
19 ceiving treatment or participating in a program of re-
20 habilitation for a condition described in clause (ii) of
21 this subparagraph plus such additional length of time
22 as the veteran demonstrates, to the satisfaction of the
23 Administrator, that the veteran was prevented by such
24 condition from participating in a vocational rehabilita-
25 tion program under this chapter, or

1 “(II) four years.

2 “(vi) When pursuant to clause (i) of this subparagraph a
3 period of eligibility does not run for a period of time, such
4 period of eligibility shall again begin to run on whichever of
5 the following first occurs—

6 “(I) the first day, following such condition becom-
7 ing sufficiently under control to enable the veteran to
8 participate in such program of vocational rehabilitation,
9 on which it is reasonably feasible, in accordance with
10 under such regulations, for the veteran to participate in
11 such a program, or

12 “(II) the day after the period of eligibility has not
13 run, pursuant to such clause, for a period of time
14 equalling four years.”.

15 (c) EDUCATIONAL ASSISTANCE FOR POST-VIETNAM
16 ERA VETERANS.—Section 1632(a) is amended—

17 (1) in paragraph (2)(A)—

18 (A) by inserting “or because of a condition
19 (and under the circumstances) described in para-
20 graph (4)(A) of this section,” after “misconduct”;
21 and

22 (B) by inserting “(except as provided in para-
23 graph (4)(B) of this subsection)” after “length of
24 time”;

1 (2) in paragraph (3) by inserting "because of such
2 disability," after "subsection"; and

3 (3) by inserting at the end the following new
4 paragraph:

5 “(4)(A) A condition referred to in paragraph (2) of this
6 subsection is an alcohol or drug dependence or abuse condi-
7 tion of an eligible veteran in a case in which it is determined,
8 under regulations which the Administrator shall prescribe,
9 that—

10 “(i) the veteran has received recognized treatment
11 or participated in a program of rehabilitation for the
12 condition, and

13 “(ii) the condition is sufficiently under control to
14 enable the veteran to pursue the veteran’s chosen pro-
15 gram of education under this chapter.

16 “(B)(i) Notwithstanding the provisions of paragraph (2)
17 of this subsection, an eligible veteran may be granted an ex-
18 tension of the applicable delimiting period because of such a
19 condition if the veteran files an application for such extension
20 not later than one year after whichever of the following last
21 occurs:

22 “(I) The last date of the delimiting period other-
23 wise applicable under this section.

24 “(II) The termination of the last period of such
25 treatment or such program of rehabilitation.

1 “(III) The date of which final regulations pre-
2 scribed pursuant to subparagraph (A) of this paragraph
3 are published in the Federal Register.

4 “(ii) An extension of the applicable delimiting period be-
5 cause of such a condition shall not exceed the lesser of—

6 “(I) the period during which the veteran was re-
7 ceiving treatment or participating in a program of re-
8 habilitation for the condition plus such additional length
9 of time as the veteran demonstrates, to the satisfaction
10 of the Administrator, that the veteran was prevented
11 by the condition from initiating or completing such pro-
12 gram of education, or

13 “(II) four years.

14 “(iii) When such an extension is granted, the delimiting
15 period with respect to the veteran will again begin running
16 on whichever of the following first occurs—

17 “(I) the first day, following the condition becom-
18 ing sufficiently under control to enable to veteran to
19 pursue the veteran's chosen program of education
20 under this chapter, on which it is reasonably feasible,
21 as determined in accordance with such regulations, for
22 the veteran to initiate or resume pursuit of a program
23 of education with educational assistance under this
24 chapter, or

1 “(II) the day after the end of the fourth year of
2 the extension.”.

3 (d) EDUCATION ASSISTANCE FOR VIETNAM-ERA VET-
4 ERANS.—Section 1662(a) is amended—

5 (1) in paragraph (1)—

6 (A) in the first sentence, by inserting “or be-
7 cause of a condition (and under the circumstances)
8 described in paragraph (4) of this subsection,”
9 after “misconduct”; and

10 (B) in the second sentence, by inserting “be-
11 cause of such disability” after “sentence”; and

12 (2) by inserting at the end the following new
13 paragraph:

14 “(4)(A) A condition referred to in paragraph (1) of this
15 subsection is an alcohol or drug dependence or abuse condi-
16 tion of a veteran in a case in which it is determined, under
17 regulations which the Administrator shall prescribe, that—

18 “(i) the veteran has received recognized treatment
19 or participated in a program of rehabilitation for the
20 condition, and

21 “(ii) the condition is sufficiently under control to
22 enable the veteran to pursue the veteran’s chosen pro-
23 gram of education under this chapter.

24 “(B)(i) Notwithstanding the provisions of paragraph (1)
25 of this subsection, a veteran may be granted an extension of

1 the applicable delimiting period because of such a condition if
2 the veteran files an application for the extension not later
3 than one year after whichever of the following last occurs:

4 “(I) The last date of the delimiting period other-
5 wise applicable under this section.

6 “(II) The termination of the last period of such
7 treatment or such program of rehabilitation.

8 “(III) The date on which final regulations pre-
9 scribed pursuant to subparagraph (A) of this paragraph
10 are published in the Federal Register.

11 “(ii) An extension of the applicable delimiting period be-
12 cause of such a condition shall not exceed the lesser of—

13 “(I) the period during which the veteran was re-
14 ceiving treatment or participating in a program of re-
15 habilitation for the condition plus such additional length
16 of time as the veteran demonstrates, to the satisfaction
17 of the Administrator, that the veteran was prevented
18 by the condition from initiating or completing such pro-
19 gram of education, or

20 “(II) four years.

21 “(iii) When such an extension is granted, the delimiting
22 period with respect to the veteran will again begin running
23 on whichever of the following first occurs—

24 “(I) the first day, following such condition becom-
25 ing sufficiently under control to enable the veteran to

1 pursue the veteran's chosen program of education
2 under this chapter, on which it is reasonably feasible,
3 as determined in accordance with such regulations, for
4 the veteran to initiate or resume pursuit of a program
5 of education with educational assistance under this
6 chapter, or

7 "(II) the day after the end of the fourth year of
8 the extension."

9 "(e) EDUCATIONAL ASSISTANCE FOR SURVIVORS AND
10 DEPENDENTS.—Section 1712(b) is amended—

11 (1) in paragraph (2)—

12 (A) by inserting "or because of a condition
13 (and under the circumstances) described in para-
14 graph (4)(A) of this section," after "misconduct";

15 (B) by inserting "(except as provided in para-
16 graph (4)(B)(ii) of this subsection)" after "length
17 of time"; and

18 (C) by inserting "because of such disability,"
19 after "sentence"; and

20 (2) by inserting at the end the following new
21 paragraph:

22 "(4)(A) A condition referred to in paragraph (2) of this
23 subsection is an alcohol or drug dependence or abuse condi-
24 tion of an eligible person in a case in which it is determined,

1 under regulations which the Administrator shall prescribe,
2 that—

3 “(i) such person has received recognized treat-
4 ment or participated in a program of rehabilitation for
5 the condition, and

6 “(ii) the condition is sufficiently under control to
7 enable such person to pursue such person’s chosen pro-
8 gram of education under this chapter.

9 “(B)(i) Notwithstanding the provisions of paragraph (2)
10 of this subsection, an eligible person may be granted an ex-
11 tension of the applicable delimiting period because of such a
12 condition if such person files an application for such extension
13 not later than one year after whichever of the following last
14 occurs:

15 “(I) The last date of the delimiting period other-
16 wise applicable under this section.

17 “(II) The termination of the last period of such
18 treatment or such program of rehabilitation.

19 “(III) The date on which final regulations pre-
20 scribed pursuant to subparagraph (A) of this paragraph
21 are published in the Federal Register.

22 “(ii) An extension of the applicable delimiting period be-
23 cause of such a condition shall not exceed the lesser of—

24 “(I) the period during which the eligible person was re-
25 ceiving treatment or participating in a program of rehabilita-

1 tion for the condition plus such additional length of time as
2 such person demonstrates, to the satisfaction of the Adminis-
3 trator, that such person was prevented by the condition from
4 initiating or completing such program of education, or

5 “(II) four years.

6 “(iii) When such an extension is granted, the delimiting
7 period with respect to such person will again begin running
8 on whichever of the following first occurs—

9 “(I) the first day, following the condition becom-
10 ing sufficiently under control to enable such person to
11 pursue such person's chosen program of education
12 under this chapter, on which it is reasonably feasible,
13 as determined in accordance with such regulations, for
14 such person to initiate or resume pursuit of a program
15 of education with educational assistance under this
16 chapter, or

17 “(II) the day after the end of the fourth year of
18 the extension.”.

19 **SEC. 6. HOME-LOAN GUARANTY PROGRAM.**

20 (a)(1) INCREASE IN MAXIMUM GUARANTY.—Section
21 1810(c) is amended by striking out “\$27,500” and inserting
22 in lieu thereof “\$36,000”.

23 (2) Section 1811(d)(2)(A) is amended by striking out
24 “\$27,500” both places it appears and inserting in lieu thereof
25 “\$36,000”.

1 (b) EFFECTIVE DATE.—The amendments made by this
2 section shall take effect on October 1, 1987.

3 SEC. 7. AUTOMOBILE ASSISTANCE ALLOWANCE.

4 (a) INCREASE IN MAXIMUM ALLOWANCE.—Section
5 1902(a) is amended by striking out “\$5,000” and inserting in
6 lieu thereof \$5,530”.

7 (b) EFFECTIVE DATE.—The amendment made by this
8 section shall take effect on October 1, 1987.

9 SEC. 8. EXEMPTION OF CERTAIN PROGRAMS FROM SEQUES-
10 TRATION.

11 (a) IN GENERAL.—Section 113 is amended—

12 (1) in subsection (a)—

13 (A) in clauses (4) and (5) by striking out
14 “(but only with respect to fiscal year 1987)” each
15 place it appears; and

16 (B) by adding at the end the following new
17 clause:

18 “(6) Benefits under chapter 37 of this title,
19 relating to housing and small business loans for
20 certain veterans and for the spouses and surviving
21 spouses of certain veterans.”;

22 (2) by striking out subsection (e); and

23 (3) by redesignating subsections (f) and (g) as subsec-
24 tions (e) and (f), respectively.

1 (b) EFFECTIVE DATES.—(1) The amendments made by
2 subsection (a) shall apply with respect to a sequestration or-
3 dered, or a sequestration law enacted, for a fiscal year after
4 fiscal year 1986.

5 (2)(A) Notwithstanding subsection (b) of section 601 of
6 the Veterans' Benefits Improvement and Health-Care Au-
7 thorization Act of 1986 (Public Law 99-576), clause (2) of
8 subsection (b) of section 113 of title 38, United States Code,
9 as added by subsection (a) of section 601 of such Act, shall
10 apply with respect to a sequestration order issued, or a se-
11 questration law enacted, for a fiscal year after fiscal year
12 1985.

13 (B) The Secretary of the Treasury shall take such action
14 as is necessary to implement subparagraph (A) and shall, not
15 later than 60 days after the date of the enactment of this Act,
16 report to the appropriate Committees of the Congress on the
17 actions taken by the Secretary pursuant to this paragraph.

○

100TH CONGRESS
1ST SESSION

S. 920

To amend title 38, United States Code, to repeal provisions relating to setting the interest rate on guaranteed or insured housing loans to veterans and inspecting manufactured homes purchased by veterans, to increase the Veterans' Administration loan fee, to authorize direct appropriations to the loan guaranty revolving fund, and for other purposes.

IN THE SENATE OF THE UNITED STATES

APRIL 3 (legislative day, MARCH 30), 1987

Mr. CRANSTON (by request) introduced the following bill; which was read twice and referred to the Committee on Veterans' Affairs

A BILL

To amend title 38, United States Code, to repeal provisions relating to setting the interest rate on guaranteed or insured housing loans to veterans and inspecting manufactured homes purchased by veterans, to increase the Veterans' Administration loan fee, to authorize direct appropriations to the loan guaranty revolving fund, and for other purposes.

- 1 *Be it enacted by the Senate and House of Representa-*
- 2 *tives of the United States of America in Congress assembled,*
- 3 That this Act may be cited as the "Veterans' Housing
- 4 Amendments Act of 1987".

1 (f) inserting "and" immediately after the semi-
2 colon at the end of section 1819(e)(5);

3 (g) striking out in section 1819(e)(6) "regulation;
4 and" and inserting in lieu thereof "regulation.";

5 (h) striking out section 1819(e)(7) in its entirety;
6 and

7 (i) striking out section 1819(f) in its entirety, and
8 inserting in lieu thereof:

9 "(f) Loans guaranteed under this section shall bear in-
10 terest at such rate as may be agreed upon by the veteran and
11 the lender: *Provided, however,* That such loans shall bear the
12 same interest rate for the life of the loan."

13 AMENDMENTS RELATING TO VETERANS' ADMINISTRATION

14 LOAN FEE

15 SEC. 3. (a) Section 1829 of title 38, United States
16 Code, is amended by—

17 (1) striking out in subsection (a) "one percent"
18 and inserting in lieu thereof "2½ percent"; and

19 (2) striking out subsection (c) in its entirety.

20 (b) Section 1810(c) of title 38, United States Code, is
21 amended by—

22 (1) striking out "The" and inserting in lieu there-
23 of "(1) Except as provided in paragraph (2) of this sub-
24 section, the"; and

25 (2) adding at the end thereof the following new
26 paragraph:

1 “(2) If a veteran pays the full amount of the fee required
2 by section 1829 of this title from the proceeds of the loan,
3 then the amount of guaranty entitlement available to that
4 veteran under this section shall be \$27,915, less such entitle-
5 ment as may have been used previously under this chapter. A
6 veteran may not use any entitlement under this paragraph
7 unless the veteran has entitlement under paragraph (1) of this
8 subsection available for use.”.

9 (c) Section 1811(d)(2)(A) is amended by striking out
10 “1810” and inserting in lieu thereof “1810(c)(1)”.

11 AUTHORIZE DIRECT APPROPRIATION

12 SEC. 4. Section 1824 of title 38, United States Code, is
13 amended by—

14 (a) striking out in clause (1) of subsection (c)
15 “such amounts as may be necessary” and inserting in
16 lieu thereof “not to exceed \$75,000,000 per fiscal
17 year”;

18 (b) striking out in subsection (c) “and (3)” and in-
19 serting in lieu thereof “(3) amounts specified in appro-
20 priation Acts, and (4)”;

21 (c) adding at the end of subsection (c) “Any
22 amounts transferred pursuant to clause (1) of this sub-
23 section shall be repaid to the appropriation account for
24 readjustment benefits from amounts available, including
25 appropriations to the Fund, no later than the time the

1 Fund's appropriation is available for the succeeding
2 fiscal year."; and

3 (d) adding at the end thereof the following new
4 subsection:

5 "(e) There are authorized to be appropriated from time
6 to time such amounts as may be necessary to provide capital
7 for the Fund."

8 REPEAL CERTAIN MANUFACTURED HOME LOAN

9 REQUIREMENTS

10 SEC. 5. (a) Section 1819(h) of title 38, United States
11 Code, is amended by—

12 (1) striking out the last sentence of paragraph (1);
13 and

14 (ii) striking out paragraph (2) in its entirety, and
15 inserting in lieu thereof:

16 "(2) Any manufactured housing unit properly displaying
17 a certification of conformity to all applicable Federal manu-
18 factured home construction and safety standards pursuant to
19 section 616 of the National Manufactured Housing Construc-
20 tion and Safety Standards Act of 1974 (42 U.S.C. 5415)
21 shall be deemed to meet the standards required by paragraph
22 (1) of this subsection."

23 (b) Section 1819(j) of title 38, United States Code, is
24 amended by—

25 (1) striking out "refuses to permit the inspections
26 provided for in subsection (h) of this section; or in the

6

1 case of manufactured homes which are determined by
2 the Administrator not to conform to the aforesaid
3 standards; or where the manufacturer of manufactured
4 homes"; and

5 (2) striking out "warranty." and inserting in lieu
6 thereof "warranty; or in the case of manufactured
7 homes which are determined by the Administrator not
8 to conform to the standards provided for in subsection
9 (h) of this section; or in the case of a manufacturer
10 who has engaged in procedures or practices determined
11 by the Administrator to be unfair or prejudicial to vet-
12 erans or to the Government."

13 (c) Section 1819(1) of title 38, United States Code, is
14 amended by striking out "the results of inspections required
15 by subsection (h) of this section,".

16 PUBLIC AND COMMUNITY WATER AND SEWERAGE
17 SYSTEMS

18 SEC. 6. Section 1804 of title 38, United States Code, is
19 amended by striking out section (e) in its entirety.

20 LENDER REVIEW OF APPRAISALS

21 SEC. 7. (a) Section 1831 of title 38, United States
22 Code, is amended by—

23 (i) striking out in subsection (c) "The Administra-
24 tor shall, upon request," and inserting in lieu thereof,
25 "Except as provided in subsection (f) of this section,
26 the appraiser shall forward an appraisal report to the

1 Administrator for review. The Administrator shall then
2 determine the reasonable value of the property for pur-
3 poses of this chapter, and notify the veteran of such
4 determination. Upon request, the Administrator shall”;

5 (ii) striking out in subsection (d) “lender—” and
6 inserting in lieu thereof, “lender (other than a lender
7 described by subsection (f) of this section)—”; and

8 (iii) Inserting at the end thereof the following new
9 subsection:

10 “(f) The Administrator may, in accordance with stand-
11 ards and procedures established by the Administrator, au-
12 thorize certain lenders to determine the reasonable value of
13 the property. In such a case, the appraiser selected by the
14 Administrator pursuant to subsection (b) of this section shall
15 forward the appraisal report directly to the lender for
16 review.”.

17 (b) Section 1810(b) of title 38, United States Code, is
18 amended by—

19 (i) striking out in paragraph (5) “by the Adminis-
20 trator;” and inserting in lieu thereof, “pursuant to sec-
21 tion 1831 of this title;”; and

22 (ii) striking out the final sentence thereof.

1 CLAIM PAYMENT AND ACQUIRED PROPERTIES

2 PROCEDURES

3 SEC. 8. (a) Section 2512(c) of the Deficit Reduction Act
4 of 1984 (Public Law 98-369) is amended by striking out
5 paragraph (2) in its entirety, and inserting in lieu thereof:

6 "(2) [Reserved]."

7 (b) Section 1816(d)(1) of title 38, United States Code, is
8 amended by striking out "75 percent, nor less than 60 per-
9 cent," and inserting in lieu thereof, "60 percent, nor less
10 than 40 percent,".

11 EFFECTIVE DATES

12 SEC. 9. (a) The amendments made by sections 2, 5, 6,
13 7, and 8 of this Act shall take effect October 1, 1987.

14 (b) The amendments made by section 3 of this Act shall
15 apply only to loans closed on or after June 1, 1987.

16 (c) The amendments made by section 4 of this Act shall
17 take effect upon enactment of this Act.

○

100TH CONGRESS
1ST SESSION

H. CON. RES. 79

IN THE SENATE OF THE UNITED STATES

APRIL 28 (legislative day, APRIL 21), 1987

Received; and referred to the Committee on Veterans' Affairs

CONCURRENT RESOLUTION

Reaffirming the sense of Congress that the 1-percent fee charged by the Veterans' Administration to veterans obtaining a home loan guaranteed by such Administration should not be increased.

Whereas the existing 1-percent origination fee for Veterans' Administration home loan guarantees is designed to offset costs of the program;

Whereas the President's budget for fiscal year 1986 proposed an increase from 1 to 5 percent in the Veterans' Administration home loan origination fee which, if enacted, would have had a serious detrimental effect on the ability of veterans to obtain loans for housing and would have discouraged homeownership;

OPENING STATEMENT
SENATOR ALAN CRANSTON
CHAIRMAN
SENATE COMMITTEE ON VETERANS' AFFAIRS

OVERSIGHT AND LEGISLATIVE HEARING
ON THE VA'S HOME LOAN GUARANTY PROGRAM

JUNE 17, 1987

Good morning. Welcome to this morning's oversight and legislative hearing on the VA loan guaranty program. We are very grateful to those of you who are appearing before us today and providing us with your views on these issues. The bills on which we are receiving testimony today are S. 9, S. 920, and H.Con.Res. 79. In addition, we look forward to your testimony on three general aspects of the home loan guaranty program: First, program-wide issues and proposals; second, assistance to veterans participating in the program, including ways to reduce the default rate on VA-guaranteed loans; and third, minimization of VA property-acquisition costs and improvements in the VA's marketing and disposition of foreclosed properties.

I want to express my appreciation to my Committee colleague and good friend, Senator Bob Graham, for agreeing to take over the chair for the hearing today. Due to other commitments, I regret that I will be unable to remain with him, but I am confident that the important work of our Committee will be left in very capable hands.

In light of the great need to reduce the towering federal deficit, it is incumbent upon those of us in Congress to exercise prudence and restraint as we consider legislation relating to federal programs of benefits and services. Having said that, however, I want to note what I hope is clear to all here today -- namely, my unswerving dedication to the maintenance of strong and vital programs of benefits and services that keep our commitments to those who answered their Nation's call in its hour of need.

We must keep this perspective in mind as we move forward with the issues which are before the Committee today. I believe that the loan guaranty program should be viewed as a benefits program and not be expected to be self-supporting.

Background: The loan guaranty program was started in 1944 to assist veterans who, because of their military service, were unable to achieve the savings necessary to make a downpayment on a home or the creditworthiness to obtain a loan without one, as their non-veteran counterparts had been able to do. Since 1944, the program has guaranteed loans totaling more than \$270 billion, helping more than 12 million veterans to purchase homes. Although this is a benefits program, over the years it has been largely self-sustaining, as veterans generally have proven to be good credit risks. As a result of the downturn in certain areas of the economy in recent years, however, the rate of default on home loans, including those guaranteed by the VA, has substantially increased, thereby substantially increasing the cost of the loan guaranty program.

It is not realistic to expect that a benefits program will incur no costs. Certainly, however, when the cost of such a program continues to increase, it is appropriate to take a closer look to determine the reasons for the increase and to take steps to minimize program costs. That does not mean changing the fundamental nature of the loan guaranty program, however, by either drastically curtailing it or insisting that it must be paid for in full by those seeking to use it.

The Committee will hear testimony today covering a wide variety of issues pertaining to the loan guaranty program -- ranging from proposals to increase the maximum VA loan guaranty and to eliminate certain restrictions on the refinancing of VA-guaranteed loans, to the Administration's proposal to require the VA to sell without recourse \$900 million of assets from the loan portfolio. Included is the Administration-requested bill regarding the loan guaranty program, S. 920. I pledged last fall that when I resumed the Chairmanship of the Committee I would generally introduce Administration bills and list them for committee hearings as appropriate, and I have done that.

As the author of S. 9, introduced on January 6, I will, of course, be very interested in the witnesses' views on this measure, as well as on S. 920 and on the oversight issues scheduled for today's hearing.

S. 9: With more specific reference to S. 9, which is cosponsored by Senators Matsunaga, DeConcini, Mitchell, Rockefeller, Graham, and Lautenberg, I would like, at this point, to highlight the two provisions which relate to the loan guaranty program.

Section 7 of S. 9 provides for an increase in the maximum VA loan guaranty from \$27,500 to \$36,000. The VA's home loan guaranty is designed to substitute, in large measure, for the downpayment that would otherwise be required when a veteran purchases a home. Under current law, the guaranty is limited to 60 percent of the loan amount or \$27,500, whichever is the lesser, with regard to conventionally built homes and condominium apartments. Lenders are thus assured of the substantial protection afforded by the VA loan guaranty and are generally willing to make loans to veterans without the necessity of a downpayment or with a lower downpayment than would otherwise be required.

As we all are well aware, housing prices have risen substantially since the most recent increase in the VA loan guaranty maximum enacted by the Congress, effective on October 1, 1980. According to data collected by the National Association of Realtors, the median purchase price of an existing home in October 1980 was \$62,700. By October 1986 -- the most recent month for which data were available prior to January 6 -- the median purchase price of an existing home had risen by 27 percent to \$79,700. In the case of new homes, the National Association of Home Builders advises that in calendar year 1980, the median purchase price was \$64,600; by the end of calendar year 1986, the price had risen to \$91,400 -- an increase of 41.5 percent. In addition, according to the latest CBO projections, the Consumer Price Index is expected to increase by 3.9 percent in fiscal year 1987. S. 9 adopts the more modest of the two 7-year increases measures. By raising the guaranty by 31 percent -- the percentage increase in the existing home median purchase price plus the projected 3.9 percent fiscal year CPI increase -- to \$36,000,

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effective October 1, 1987, this bill would help to ensure that the value of the VA home loan guaranty keeps pace with increases in the housing market.

The continuing popularity of and demand for the VA's home loan program is clearly evident. In fiscal year 1986, the VA guaranteed 351,242 home loans totaling a record \$21.9 billion and issued commitments to guarantee loans totaling another \$12.4 billion. This represented a significant increase over fiscal year 1985 when the VA guaranteed \$11.45 billion in loans, representing 178,931 loans. But for hundreds of thousands of other veterans seeking to use their VA home loan guaranty entitlement, the cost of housing is so high -- especially in high cost areas such as California and Alaska -- that they cannot find any decent housing for the maximum price -- \$110,000 -- which the VA loan guaranty maximum will enable them to pay with a no-downpayment loan.

The increase which S. 9 provides will help ensure that, to the extent interest rates and other economic factors generally make home purchases possible, the VA loan guaranty program will continue to play the role Congress intends of helping veterans become homeowners.

This provision of S. 9 is similar to provisions in S. 2265, which I introduced in the 98th Congress, and in S. 9, which I introduced in the 99th Congress. Both of those bills proposed increases in the maximum to \$35,000. Despite the passage by the House of Representatives in the 98th Congress (section 1 of H.R. 5617) and the passage by the Senate in the 99th Congress (section 303 of S. 1887) of provisions that would have substantially increased the loan guaranty maximum and despite my best efforts, the enactment of an increase was not achieved.

Section 8 of S. 9 would modify provisions enacted in section 601 of the Veterans' Benefits Improvement and Health-Care Authorization Act of 1986, which provided exemptions from sequestration under the Balanced Budget and Emergency Deficit Control Act of 1985 (commonly referred to as "Gramm-Rudman") for certain VA programs, so as to provide for appropriate supplementations of those exemptions. Either in the original Gramm-Rudman law or in subsequent legislation, Congress has enacted provisions making various categories of VA programs at least temporarily or partially exempt from sequestration or similar across-the-board reductions.

In the case of VA-guaranteed home loans, Congress enacted two measures, Public Law 99-255 and section 1 of Public Law 99-322, raising the cap which the March 1, 1986, fiscal year 1986 sequestration order -- based on what proved to be an extreme underestimate of the volume of VA loan guaranty commitments that would be issued in fiscal year 1986 in the absence of a cap -- had placed on the making of VA loan guaranty commitments in fiscal year 1986. Ultimately, the second increase, to \$32.28 billion, made on the basis of an updated mid-May estimate of the fiscal year 1986 volume if uncapped, exceeded by about \$4 billion the total amount of commitments issued by the VA in fiscal year 1986 and thus provided a de facto exemption for that year.

For fiscal year 1987 and subsequent years, despite efforts in both Houses last year to provide an exemption, no legislation has been enacted to exempt the program from sequestration. Rather, in section

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601 of Public Law 99-576, Congress enacted only a requirement for the VA, in any year in which a sequestration occurs, to report to Congress on a monthly basis on the level of activity in the program.

I believe that the loan guaranty program should be exempted for three reasons. First, as long as a fee is charged for the issuance of VA guaranties to veterans who have no service-connected disabilities, a sequestration cap reducing the total amount of guaranties issued in the year of the sequestration actually would increase -- not decrease -- the deficit in the fiscal year of the sequestration. For example, according to the August 20, 1986, "snapshot" report issued by the Directors of CBO and the Office of Management and Budget pursuant to section 251 of Gramm-Rudman, a fiscal 1987 sequestration reduction in the VA loan guaranty program would have increased the fiscal year 1987 deficit by over \$9 million.

Second, based on the experience last year, it seems highly likely that, if the program is ever again threatened with a substantial interruption in the issuance of guaranty commitments due to sequestration, Congress would act swiftly to raise the sequestration cap in order to avoid such an interruption. Thus, an exemption would simply avoid the need for legislative action that would provide annual exemptions.

Third, if a sequestration reduction in the issuance of VA loan guaranty commitments actually were to occur, it seems clear that the sequestration would operate extremely inequitably. The Administration indicated last year that it would implement sequestration by cutting off the issuance of commitments when the sequestration cap was reached. Thus, the veterans whose home loan applications were approved after the cap is reached would be denied a guaranty at that point and would be at risk of having their purchase agreements fall through before the issuance of guaranty commitments is resumed at the start of the next fiscal year. Those veterans would in effect be denied the benefit in toto. Other veterans would be completely unaffected.

I consider it unacceptable for equally deserving veterans to be treated so differently with respect to this important benefit. Yet, unless S. 9 is enacted, this is what a sequestration almost certainly would bring about.

S. 920: S. 920, which was introduced at the request of the Administration and upon which we will receive testimony, includes provisions to remove the expiration date for the "no-bid" formula contained in section 2512 of the Deficit Reduction Act of 1984, Public Law 98-369, to eliminate the fixed interest rate on VA-guaranteed loans, to authorize lender review of appraisals, and to increase the number of VA-acquired foreclosed properties which must be sold on a cash rather than vendee loan basis.

The no-bid provision was originally enacted on a trial basis and thus is scheduled to expire on October 1, 1987. By requiring the VA to factor post-acquisition costs, including repairs, maintenance, security, and taxes, into its calculation of the net value of foreclosed property, the no-bid formula results in a more accurate -- and lower -- computation of net value. Accordingly, enactment of the no-bid formula has increased the number of no-bid properties on which the VA has paid the guaranty in

lieu of acquiring the property from 3,735 in fiscal year 1984 to 5,236 in fiscal year 1986.

I believe that the no-bid provision has been beneficial for the home loan program and that, overall, the results it has achieved have been equitable. However, in certain cases -- where the VA has asked a lender to forbear, the veteran eventually defaults, and the additional interest accrued during the forbearance period causes the VA to pay the guaranty on the property rather than to bid on it -- it may be appropriate to consider revising the formula, so that if the lender is willing to forgo the VA's payment of the interest, it will be excluded from the no-bid calculation.

I want to outline this morning a legislative initiative I am working on with Senator Murkowski. This initiative will be designed to make refinancing of VA loans for the purpose of lowering the interest rate available to any veteran who had occupied the home in question, to reduce defaults by limiting refinancing to 90 percent of appraised property value when the purpose of refinancing is to obtain cash equity payouts, and to require approval of the creditworthiness of the buyer whenever a VA-guaranteed loan is assumed and generally provide for the original veteran's release from liability upon such an assumption. We also are investigating whether it would make sense to eliminate the provision limiting the term of a loan refinancing a VA-guaranteed loan to the term of the original loan.

Under current law, a veteran may refinance a VA-guaranteed loan for the purpose of reducing the interest rate only if, at the time of refinancing, he or she occupies the home securing the loan. Active-duty military and foreign service personnel, who frequently will be transferred several times throughout the course of their careers, thus may be unable to take advantage of a drop in interest rates -- even if their families still live in the home. The same is true for many other veterans who may be subject to transfer by their employers or who must move for other reasons.

Restricting refinancing in such cases is detrimental, not only to the individual veteran who, because he or she cannot refinance the loan must meet higher mortgage payments, but to the loan guaranty program as a whole, which is likely to experience a greater number of defaults on VA-guaranteed loans as a result. Accordingly, our initiative will provide that, as long as the purpose of refinancing is to lower the interest rate on the loan and there is no cash equity payout, the veteran need not reside in the home at the time of refinancing but would have to certify that he or she had lived in the home at some point.

In order to qualify for a VA-guaranteed loan in the first place, a veteran has to certify an intention to occupy the property as his or her home. That requirement, along with the limitation of \$27,500 in loan guaranties for an individual veteran at any point in time, will ensure that the program remains one of benefits for veterans and will prevent its abuse by speculators.

Our proposal also would provide that all assumptions of VA-guaranteed loans made after the date of enactment be subject to approval of the buyer's creditworthiness on the same basis as the creditworthiness of

the original borrower currently is required to be approved, and that in the case of such an assumption the veteran generally would be automatically released from liability. We are considering one possible exception to allow the Administrator to continue the veteran's liability where he determines that to be in the best interest of the Government.

I would also like to comment briefly on certain of the oversight issues we will be addressing today. First, the Administration has proposed the sale without recourse of \$900 million of loan assets from the loan portfolio. The Committee expressed its concern regarding the proposed sale of the vendee loan portfolio in its February 27 report to the Budget Committee, which was unanimously approved by the Committee. In that report, we indicated that the proposed sale appeared to be neither viable nor wise as a long-term strategy for managing the loan guaranty program.

Since that time, in May, the VA has attempted one sale of vendee loans without recourse. Despite extensive advertising of and major preparations for the sale, the results were a disastrous failure. The VA received bids for only about \$8 million of the \$84 million of the vendee loans it planned to offer for sale, and the amount of the bids ranged from only 15 percent to 65 percent of the value of the loans. The VA was forced to withdraw all of the loans from sale.

I am deeply concerned that the Administration's proposal is nothing more than an attempt to provide quick cash for a one-time reduction of the budget deficit at the expense of the home loan program and our veterans who benefit from it. The sale of 30 percent of the VA's loan portfolio over each of the next three fiscal years will greatly reduce the future stream of income the loan guaranty program otherwise could depend on to provide the revenues necessary to meet the VA's guaranties in case of foreclosure. As the attempted sale in April indicates, the VA likely will have to greatly discount these loans in order to sell them without recourse, so that any revenues achieved through such sales will likely be much less than they would have been if the loans were sold with recourse. Especially if the Administration persists in the face of repeated failures to sell the loans without recourse for a fair price, legislation to prevent these losses to the loan guaranty program by limiting the quantity of vendee loans which may be sold without recourse in any year may ultimately be necessary.

With respect to the second general area, assistance to veterans participating in the home loan program and ways to reduce the default rate on VA-guaranteed loans, the rise in recent years of foreclosures on properties guaranteed by VA loans has focused increased attention on what the VA can and should do to prevent veterans' defaults. From December 31, 1985 to December 31, 1986, the default rate on VA-guaranteed loans rose 11.4 percent. The number of claims paid by the VA on foreclosed loans rose 18.1 percent. According to the GAO, the total cost to the VA of payment of guaranties and acquisition of properties, rose from approximately \$290 million in fiscal year 1984 to approximately \$575 million in fiscal year 1986.

Certainly, general economic conditions in particular areas of the country, which clearly are beyond the control of the VA, have played a large role in the increase in defaults. However, factors within the

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control of the VA also are contributing to the increasing losses the program is suffering. For example, overestimates in appraisals, averaging approximately 8.5 percent, result in the VA providing -- and paying -- guaranties in excess of fair market value. Delays in the foreclosure process result in the accrual of additional interest, thereby increasing both the VA's debt to the lender and the veteran's debt to the VA. Inadequate servicing of loans when the veteran is in default appears to have resulted in defaults that might have been curable going on to foreclosure instead.

The GAO recently reviewed certain aspects of the loan guaranty program, including the VA's servicing of defaulted loans. In testimony presented for our hearing and before the House Committee on Veterans' Affairs on May 13, the GAO reports that the VA does not consistently make available to veterans loan counseling and the various means of financial assistance it can provide -- such as encouraging loan refinancing and refunding loans (where the VA replaces the original lender as the source of financing). The GAO observed that, when the VA does provide such loan servicing, it has proven very successful in reducing foreclosures.

Indeed, the VA has indicated that it has taken steps to improve loan servicing by issuing new servicing standards for lenders. However, particularly in light of the GAO report, it would appear that the VA itself should be doing more to help veterans who are in default. Understaffing at VA regional offices has certainly contributed to the VA's providing only limited loan servicing, and one of the issues we will address today is whether cost savings actually can be achieved through the addition of staff which can be used to service loans and thereby to lower default rates.

I am pleased to note that the VA has taken steps to address some of these problems. For example, the VA recently revised its credit underwriting standards for "automatic" lenders. Although I am concerned that these standards not be applied so as unduly to prevent veterans from qualifying for VA-guaranteed loans, it does not benefit the veteran to provide a loan for a house which he or she cannot afford and on which he or she eventually defaults.

It is encouraging that recent VA statistics indicate that the VA's average loss per acquired property has declined from approximately \$15,000 in fiscal year 1985 to approximately \$14,000 in fiscal year 1986. Additionally, as the average loss per property has declined, the number of foreclosed properties on which the VA paid the guaranty instead of acquiring the property also has declined slightly, from 20 percent in fiscal year 1986 to 19 percent for the second quarter of fiscal 1987. I look forward to testimony regarding other steps the VA can take to improve loan servicing and reduce defaults.

The third general area we will be discussing today is minimization of VA property acquisition costs and improvements in the VA's marketing and disposition of foreclosed properties. The enactment in 1984 in Public Law 98-369 of the statutory "no-bid" formula for determining when the VA bids on foreclosed properties or pays the guaranty resulted in the VA acquiring only 85 percent of foreclosed properties in fiscal year 1986, compared with 93.6 percent in fiscal year 1984, according to the Mortgage Bankers Association of America. However, the rising default

rate, particularly in certain economically depressed areas of the country, caused the VA's inventory of such properties to increase by nearly 2,000 properties in fiscal year 1986. The GAO, in its testimony, discusses several ways for the VA to reduce losses incurred in the acquisition and disposition of foreclosed properties. The GAO expressed concern over what it perceived as unnecessary delays in the VA's acquisition of foreclosed properties, and also recommended that the VA encourage additional bidding at foreclosure sales and reduce the costs of -- or eliminate entirely -- obtaining title insurance on acquired property.

It is crucial that the VA dispose of these properties in the most efficient way possible, so as to maximize the return it receives. According to the VA, it has been evaluating the methods it currently uses in order to improve its present system of property disposition. In follow-up to our Committee's February 18 hearing on the budget, I asked the VA to investigate the merit of using "electronic bulletin boards" to advertise properties to realtors, and thereafter I pushed for computer acquisitions in regional office Loan Guaranty Service Divisions for this purpose. Since that time, the VA has approved the installation of electronic bulletin boards in VA regional offices and agreed to provide the needed p.c.'s to improve the timeliness, control and management of loan guaranty functions.

I would like now to make a few general announcements.

First, we will hold a hearing a week from today on AIDS and the VA. This is a very important and time-urgent issue. In addition to the issues of AIDS testing and the funding of VA medical centers treating large numbers of AIDS patients, we will be exploring how the VA can implement an effective and comprehensive education and prevention program for its patients and their families.

Second, as I indicated at our May 21 hearing, we are developing beneficiary travel legislation. We have made substantial progress and hope to introduce that bill by early next week. Generally it would restore beneficiary travel payments for all those eligible before the VA's April 13 regulations took effect subject to a \$7.50 roundtrip deductible. No deductible would be paid for certain special mode trips or for compensation and pension exam travel directed by the VA. Interfacility transfers would remain unaffected. For those States and territories without any VA hospital -- Hawaii, Alaska, the Virgin Islands, and American Samoa -- these provisions would greatly improve beneficiary travel.

Third, Senator Murkowski and I have been working on legislation to improve VA compliance with its health care quality assurance regulations and guidelines. We have prepared companion bills which we will introduce this week to provide for expanded monitoring of and reporting to Congress by the Inspector General of the VA on the Department of Medicine and Surgery's quality assurance programs, and to establish within DM&S a Medical Inspector General with adequate tenure, staffing, and a clear charge of responsibility to be able to make independent investigations and reviews of instances where there is a breakdown in the quality of VA care.

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Finally, let me reiterate the rest of our schedule over the next month. On Tuesday, June 30, we have a hearing on VA compensation, radiation exposure benefits, and related issues. And our markup for all health care and benefits legislation is scheduled for July 16.

Before I close, I particularly wish to welcome Keith Pedigo. Keith, who has served the VA so diligently and competently, most recently as the Deputy Director of the Loan Guaranty Service, recently was named Director. I congratulate Keith and look forward to working with him in his new capacity.

There are obviously a great number of issues to be discussed today and many new ideas which, if enacted into law, will greatly affect the shape and future viability of the loan guaranty program. I and the other members of our Committee are very interested in the ideas and views of those appearing before us today as well as those who have submitted written testimony. I again want to thank the witnesses for their participation and help on these important matters.

Now, I recognize the Senator from Alaska, our Ranking Minority Member and former Chairman, Senator Frank Murkowski, and will yield the chair to Senator Bob Graham with my thanks for his assistance this morning.

OPENING STATEMENT
SENATOR BOB GRAHAM
ACTING CHAIRMAN
SENATE COMMITTEE ON VETERANS' AFFAIRS
OVERSIGHT AND LEGISLATIVE HEARING ON
V.A. LOAN GUARANTY PROGRAM

Good morning and welcome. I was very happy to accept the request of Chairman Alan Cranston to chair this legislative and oversight hearing on the V.A. loan guaranty program. I have a long-standing commitment -- dating back to my tenure as Governor of Florida and beyond and continuing today -- to ensuring that we continue to meet our obligations to our veterans, who have served and made such great sacrifices to keep our Nation free and strong.

As a member of the Banking, Housing and Urban Affairs Committee as well as the Veterans' Affairs Committee, I have a strong interest in federal housing policy. I would also note that, as a homebuilder in Florida for over 30 years, I have had personal experience with both the V.A. and F.H.A. housing programs. Hence, I am particularly pleased to help carry out the Committee's oversight responsibilities with respect to the home loan program. This program, which has served over 12 million veterans since its inception after World War II, is an important one, and the operation of it in a manner which will continue to meet the needs of veterans is imperative.

This morning we will be hearing testimony on three legislative proposals pertaining to the home loan program. S. 9, in which I was pleased to join with Senator Cranston and the other original cosponsors, Senators Matsunaga, DeConcini, Mitchell, Rockefeller, and Lautenberg, would allow the home loan guaranty to maintain its value in the face of housing industry inflation. S. 9 also would provide protection for the home loan program from sequestration under Gramm-Rudman, which otherwise could unfairly result in the denial of these benefits for many veterans.

We also will be hearing testimony on the legislative initiative which Senator Cranston just referred to and which I will be supporting along with him and Senator Murkowski. This initiative would allow more veterans the benefit of refinancing V.A.-guaranteed loans at lower interest rates, while adding safeguards to prevent defaults due to over-refinancing for the purpose of obtaining cash for the equity in the property. Further protection against defaults also would be provided with

respect to the assumption of V.A.-guaranteed loans, by requiring approval of the creditworthiness of buyers seeking to assume such loans, as is required when a veteran originally applies for such loans.

We also will be hearing testimony today on S. 920, which was introduced at the request of the Administration.

The increase in the default and foreclosure rates on V.A.-guaranteed loans in recent years demands that we take a hard look at the home loan program to ensure that it remains viable and able to provide benefits to all veterans who are entitled to and qualify for them. While the impact of general economic conditions may well be the primary cause for the recent increase, that does not mean that the V.A. or this Committee can avoid its duty to evaluate and improve, where possible, the operation of the program.

Today, therefore, we will be examining three major areas of concern. First, we will be considering certain program-wide issues and proposals. The Administration's proposal to require the V.A. to sell off \$900 million of assets from the vendee loan portfolio without recourse, at what are certain to be greatly discounted prices, raises serious questions about the continued viability of the home loan program and the Administration's commitment to ensuring that it remains a benefits program for our veterans. The V.A.'s recently aborted attempted sale in April of \$84 million of vendee loans without recourse -- resulting in bids ranging from 15 to 65 percent of the value of the loans on only about \$8 million of loans -- clearly points out the difficulty the V.A. can expect in obtaining fair value when these loans are sold without recourse.

Questions regarding the adequacy of staffing in V.A. regional offices also must be raised. The increase in default rates, along with a tremendous rise in loan originations and refinancing applications over the past year due to falling interest rates, has stretched the workload capacity of the regional offices at least to, if not beyond, their limits. Staffing shortages can cause delays in processing loan applications which may result in a veteran losing the home he or she had intended to buy. Similarly, the quality of loan servicing and financial assistance provided to veterans is likely to suffer.

The second general area we will be discussing today includes assistance to veterans and ways to reduce the default and foreclosure rates. As the G.A.O.'s written testimony for today's hearing indicates, we need to consider what steps can be taken to ensure that veterans in default on V.A.-guaranteed loans are given the counseling and assistance that might help them avoid foreclosure. The G.A.O.'s testimony outlines some creative

methods the V.A. has used, such as refunding the loan and establishing a repayment plan which the veteran will be able to meet, in order to let veterans keep their homes. We need to examine the extent to which such methods should be increased to ensure that the V.A. is doing all it can to help veterans in financial difficulty remain in their homes, and to prevent the program from incurring avoidable costs.

Finally, we will be examining ways to minimize the V.A.'s property acquisition and disposition costs and improvements in the V.A.'s marketing of the foreclosed properties it acquires. It is somewhat encouraging that, excluding certain depressed areas of the country, the V.A. has been able to reduce its inventory of acquired properties by 3,677 properties. We look forward to testimony regarding additional steps which can be taken to achieve further inventory reductions in a cost-effective manner.

The home loan program has helped over 12 million veterans -- and their families achieve one of the greatest American dreams -- owning their own home. I am delighted to have the chance, as a member of this Committee, to work on the important issues we will be addressing today in order to evaluate and make needed improvements in this program. We have a great deal of ground to cover this morning, and I look forward to hearing from each of our witnesses and to working together with them and the Chairman and other members of the Committee in the development of legislation to improve and protect the loan guaranty program.

STATEMENT OF SENATOR FRANK H. MURKOWSKI (R-AK)
AT
THE SENATE COMMITTEE ON VETERANS' AFFAIRS HEARING
REGARDING
LEGISLATION AND OVERSITE OF
THE VETERANS' ADMINISTRATION'S HOME LOAN GUARANTY PROGRAM

GOOD MORNING,

IT IS A PLEASURE TO WELCOME MY COLLEAGUE FROM FLORIDA AS HE CHAIRS A HEARING OF THE SENATE COMMITTEE ON VETERANS' AFFAIRS FOR THE FIRST TIME. I AM PLEASED THE COMMITTEE CHAIRMAN, MY DISTINGUISHED COLLEAGUE FROM CALIFORNIA, HAS SCHEDULED A HEARING ON THIS SUBJECT EARLY IN THE SESSION. I PLACED HEAVY EMPHASIS ON THE HOME LOAN GUARANTY PROGRAM WHEN I WAS CHAIRMAN, AND AM PLEASED SENATOR CRANSTON HAS CHOSEN TO CONTINUE THAT EMPHASIS. HE WORKED CLOSELY AND CONSTRUCTIVELY WITH ME IN DEVELOPING LEGISLATION TO IMPROVE THIS PROGRAM WHEN HE WAS RANKING MINORITY MEMBER, AND I INTEND TO WORK WITH HIM IN THE SAME MANNER IN THE 100TH CONGRESS.

THIS HEARING IS IMPORTANT BECAUSE THE HOME LOAN GUARANTY PROGRAM IS IMPORTANT. THE PROGRAM IS IMPORTANT BECAUSE IT IS THE PRIMARY MECHANISM FOR VETERANS TO REALIZE THE DREAM OF HOME OWNERSHIP. IT IS ALSO IMPORTANT FOR THE ECONOMY OF THE NATION BECAUSE OF THE CRITICAL ECONOMIC ROLE PLAYED BY THE HOUSING AND FINANCE INDUSTRIES. IT IS IMPORTANT FOR THE TAXPAYERS BECAUSE RECENT YEARS HAVE SEEN THE NEED FOR FREQUENT INFUSIONS OF MONEY INTO THE LOAN GUARANTY REVOLVING FUND TO KEEP THE PROGRAM OPERATING; OVER \$2.2 BILLION SINCE 1978.

THIS COMMITTEE FACES THE QUESTION OF WHAT SHOULD BE DONE NOW. WHAT SHOULD BE DONE TO PROTECT AND IMPROVE THE BENEFIT FOR VETERANS? WHAT SHOULD BE DONE TO REDUCE THE COST TO THE TAXPAYERS?

TO ANSWER THESE QUESTIONS I BELIEVE WE MUST BREAK DOWN THE PROGRAM INTO TWO COMPONENT PARTS.

THE PRIMARY COMPONENT IS THE BASIC BENEFIT PROGRAM. AS GUARANTOR OF LOANS MADE TO VETERANS BY PRIVATE LENDERS THE VA PLAYS A SECONDARY ROLE IN THE OPERATION OF THIS COMPONENT. THE VA EXERCISES GENERAL SUPERVISION AND ASSUMES MUCH OF THE RISK OF BUSINESS DECISIONS MADE BY OTHERS, BUT DOES NOT DIRECTLY MAKE THE DAY-TO-DAY DECISIONS OF PROGRAM OPERATION. DECISIONS TO BUY OR SELL A HOME, ESTABLISH THE PRICE, UNDERWRITE THE LOAN OR FORECLOSE ON A DEFAULTED LOAN ARE MADE, FOR THE MOST PART, BY

PRIVATE SECTOR PARTICIPANTS IN THE PROGRAM -- THE VETERANS, REALTORS, APPRAISERS AND BANKERS. ON THE BUSINESS SIDE THESE DECISIONS ARE MADE BY INDIVIDUALS OR INSTITUTIONS WHOSE PROFITS AND LOSSES ARE TIED, IN PART, TO THE HOUSING INDUSTRY. AS A FORMER BANKER, I HAVE DEEP RESPECT FOR THE ROLE THESE FACTORS PLAY AS A MECHANISM FOR THE EFFICIENT ALLOCATION OF RESOURCES IN OUR FREE MARKET ECONOMY. BUT FOR PROFIT AND LOSS TO EFFECTIVELY FULFILL THAT ROLE, THEY MUST BE LINKED TO RISK. ACCORDINGLY, EFFECTIVE REFORM MUST ADDRESS FACTORS SUCH AS APPRAISALS, LOAN UNDERWRITING, SERVICING AND VA'S "NO BID" POLICY WHICH ESTABLISH THE LEVEL AND DISTRIBUTION OF RISK.

IN AN IDEAL WORLD WE WOULD NEED TO LOOK NO FURTHER THAN THE BASIC VETERANS' BENEFIT PROGRAM IN CONSIDERING POSSIBLE IMPROVEMENTS. HOWEVER, WE MUST LIVE IN THE REAL WORLD WHERE LOANS ARE DEFAULTED; AND THE VA, RATHER THAN PAYING THE GUARANTY TO THE LENDER, TAKES POSSESSION OF HOMES IN 81% OF FORECLOSURES. CURRENTLY OVER 21,000 HOMES ARE IN THE VA INVENTORY. THE COST TO THE TAXPAYER OF PAYING THE LENDER THE PRINCIPAL AMOUNT OF THE LOAN, ALL ACCRUED DEBT, FORECLOSURE COSTS, CARRYING COSTS AND RESALE COSTS IS OBVIOUSLY ENORMOUS. THEREFORE, THE REAL WORLD REQUIRES THAT WE TAKE A LOOK AT THAT PORTION OF THE HOUSING PROGRAM DEALING WITH THE HOMES THE VA ACQUIRES THROUGH FORECLOSURE. IN THIS COMPONENT THE VA MUST DECIDE WHICH HOMES IT WILL TAKE INTO ITS INVENTORY; HOW IT WILL MAINTAIN AND MARKET THEM; AND TO WHOM AND UNDER WHICH TERMS IT WILL SELL THEM. THE

VA ACTS AS SELLER, LENDER AND GUARANTOR, AND AS A RESULT IS THE PRIMARY PARTICIPANT. PROPOSALS FOR REFORM IN THIS AREA WILL BE ADDRESSED PRIMARILY TO THE VA.

SINCE IT BEGAN IN 1944, THE VETERANS HOME LOAN GUARANTY PROGRAM HAS BEEN ONE OF THE MOST SIGNIFICANT AND SUCCESSFUL FEDERAL PROGRAMS. OVER 12 MILLION VA GUARANTEED LOANS HAVE BEEN MADE. I BELIEVE THE FUTURE SUCCESS OF THIS PROGRAM WILL DEPEND ON CONGRESSIONAL WILLINGNESS TO ADDRESS THE ISSUES OF ASSUMPTIONS, CREDIT UNDERWRITING, LOAN SERVICING, APPRAISALS AND REFINANCING.

IN CLOSING, I WISH TO STATE THAT I INTEND TO INTRODUCE LEGISLATION AMENDING THE OCCUPANCY REQUIREMENT FOR VETERANS WHO WISH TO REFINANCE VA HOME LOANS. THIS REQUIREMENT HAS PRODUCED AN UNINTENDED CONSEQUENCE. IT PREVENTS A VETERAN HOMEOWNER FROM REFINANCING A VA HOME LOAN IF THE VETERAN IS TEMPORARILY LIVING AWAY FROM THE HOME AT THE TIME HE OR SHE SEEKS TO REFINANCE THE LOAN. THIS RESTRICTION CREATES A SIGNIFICANT BURDEN FOR THOSE WHOSE CAREERS MAY REQUIRE FREQUENT TEMPORARY REASSIGNMENTS AWAY FROM THEIR USUAL HOME. THE CAREERS OF ACTIVE DUTY MEMBERS OF OUR ARMED FORCES ARE CHARACTERIZED BY JUST SUCH A PATTERN OF REASSIGNMENTS. THE SAME PRINCIPLE APPLIES TO VETERANS WHO NOW SERVE IN THE FOREIGN SERVICE OR WORK FOR A DEFENSE CONTRACTOR SUPPORTING THE ARMED SERVICES. IN FACT, IT APPLIES TO ANY VETERAN EMPLOYED IN A CAREER WHICH REQUIRES FREQUENT

REASSIGNMENTS. THE LEGISLATION I WILL INTRODUCE WILL PROVIDE RELIEF TO ANY ELIGIBLE VETERAN OR SERVICEMEMBER. THE ONLY LIMITATION WOULD BE A REQUIREMENT THAT THE ABSENCE FROM THE HOME BE THE RESULT OF EMPLOYMENT AND THAT THE HOMEOWNER INTEND TO RETURN TO THE HOME FOR WHICH THE LOAN IS BEING REFINANCED. THIS LIMITATION IS IMPORTANT BECAUSE IT PRESERVES THE LINK TO GUARANTORING LOANS FOR HOMES WHICH WILL BE OCCUPIED BY VETERANS. THIS LINK IS NECESSARY TO MAINTAIN THE FUNDAMENTAL PRINCIPAL UPON WHICH THE PROGRAM WAS ESTABLISHED AND WHICH JUSTIFIES ITS UNQUALIFIED SUPPORT BY THE CONGRESS AND THE AMERICAN PEOPLE.

THIS LEGISLATION WOULD NOT CHANGE THE NATURE OR PURPOSE OF THE PROGRAM. IT WOULD BENEFIT THE TAXPAYER BECAUSE OF REDUCED LOAN DEFAULTS AND INCREASED REVENUE FROM THE 1% FUNDING FEE IMPOSED ON REFINANCED AS WELL AS ORIGINAL LOANS. IN SHORT, THIS LEGISLATION WOULD BE A GOOD DEAL ALL AROUND.

I ALSO WISH TO COMMEND JOHN VOGEL, THE CHIEF BENEFITS DIRECTOR OF THE VA, AND HIS MANAGEMENT TEAM, FOR THE INITIATIVES THEY HAVE TAKEN TO RESOLVE THE DIFFICULT PROBLEMS FACING THE PROGRAM.

I LOOK FORWARD TO HEARING THE COMMENTS AND SUGGESTIONS OF OUR WITNESSES FOR REFORM OR IMPROVEMENT OF THIS IMPORTANT VETERANS' PROGRAM.

STATEMENT BY SENATOR STROM THURMOND BEFORE THE VETERANS' AFFAIRS COMMITTEE REFERENCE OVERSIGHT HEARING ON THE VA HOME LOAN GUARANTY PROGRAM AND REFERENCE HOME LOAN PROVISIONS IN S.9 -- THE SERVICE DISABLED VETERANS' BENEFITS IMPROVEMENT ACT OF 1987 AND S.920 -- VETERANS' HOUSING AMENDMENTS ACT OF 1987, WEDNESDAY, JUNE 17, 1987, 10:00 A.M., SR-418.

MR. CHAIRMAN:

IT IS A PLEASURE TO BE HERE TODAY TO RECEIVE TESTIMONY ON THE OPERATION OF THE VA HOME LOAN GUARANTY PROGRAM AND RELATED LEGISLATION. I AM PLEASED THAT REPRESENTATIVES FROM THE VETERANS' ADMINISTRATION, THE SERVICE ORGANIZATIONS, LENDING INSTITUTIONS, AND HOME BUILDING ASSOCIATIONS WILL BE TESTIFYING TODAY.

MR. CHAIRMAN, I WANT TO COMMEND YOU FOR SCHEDULING THIS HEARING. LAST MONTH, I WAS PLEASED TO ALSO HAVE THE OPPORTUNITY TO PARTICIPATE IN A HOUSE VETERANS' AFFAIRS COMMITTEE FIELD HEARING ON THE HOME LOAN PROGRAM IN SOUTH CAROLINA.

SINCE ITS INITIATION IN 1944, THE VA HOME LOAN PROGRAM HAS SERVED THE VETERANS OF THIS COUNTRY AND THIS STATE WELL. NATIONWIDE, MILLIONS OF VETERANS HAVE BEEN PROVIDED AN OPPORTUNITY FOR HOME OWNERSHIP. IN MARCH OF THIS YEAR, THE VA MADE ITS 12 MILLIONTH GUARANTEED HOME LOAN SINCE COMMENCEMENT OF THE PROGRAM. THIS REPRESENTS A TOTAL VALUE OF \$257.4 BILLION.

AS MANY OF YOU KNOW, THE FIRST GUARANTIES WERE LIMITED TO VETERANS, WITH THE MAXIMUM GUARANTY BEING \$2,000. TODAY, THE PROGRAM HAS BEEN EXPANDED TO ALSO INCLUDE ACTIVE DUTY SERVICE MEMBERS. IN ADDITION, THE VA NOW GUARANTEES TO PAY THE LENDER 60% OF THE LOAN, BUT NO MORE THAN \$27,500, IF THE BORROWER DEFAULTS.

THE VA HOME LOAN PROGRAM HAS BEEN QUITE EFFECTIVE IN MEETING THE HOUSING NEEDS OF VETERANS. YET, DESPITE ITS EFFECTIVENESS, I HAVE

SOME CONCERNS OVER THE LARGE NUMBER OF FORECLOSED HOMES IN THE VA INVENTORY. AS OF APRIL 30, 1987, THERE WERE 21,820 SUCH PROPERTIES. IT IS IMPORTANT FOR US TO CLOSELY EXAMINE THE PROGRAM TO DETERMINE THE CAUSE FOR SUCH A LARGE NUMBER, AND THEN TO ACT PROMPTLY TO ADDRESS THIS MATTER.

MR. CHAIRMAN, I REGRET THAT I CAN NOT REMAIN FOR THE FULL HEARING, AS I HAVE A PRIOR COMMITMENT. I LOOK FORWARD TO REVIEWING THE TESTIMONY OF THE DISTINGUISHED WITNESSES WHO ARE HERE TODAY.

STATEMENT OF R. J. VOGEL
CHIEF BENEFITS DIRECTOR
VETERANS ADMINISTRATION
BEFORE THE
COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES SENATE
JUNE 17, 1987

Mr. Chairman and Members of the Committee:

It is a pleasure to appear before you this morning to discuss the operation of the Veterans Administration's housing program.

First Mr. Chairman, I would like to bring to your attention a significant milestone for the VA Loan Guaranty Program. On March 6, 1987, VA guaranteed the 12 millionth home loan. In a ceremony in Phoenix, Arizona, Deputy Administrator of Veterans Affairs, Thomas Harvey, presented the keys to their new home to 29-year-old U.S. Army veteran, Jesse M. Giron, and his wife.

Next, Mr. Chairman, I will bring you up-to-date on the current activity of the Loan Guaranty Program. The interest rate on VA guaranteed home loans has remained within the 8-1/2 to 10 percent range for the past year. The current rate of 10 percent has been in effect since May 11, 1987. As you

specifically requested information on recent rate increases, I wish to assure you that decisions to increase the VA maximum interest rate are never taken lightly. The increases in the VA maximum rate to 9-1/2 percent effective April 13, 1987, and to 10 percent effective May 11, 1987 were taken to assure an adequate supply of funds for VA loans. These increases were made only after clear recognition of an upward trend in the market. As always, VA follows the market, it does not lead. It is important to note that during periods of extreme interest rate volatility, especially when the trend is toward higher rates, lender-borrower negotiated rates would make for a more efficient market and enhance the supply of credit to veteran borrowers.

During calendar year 1986, the VA guaranteed 351,242 loans, which is the highest since 1979; almost 74 percent of the loans were made without a downpayment from the veteran purchaser. These no downpayment loans had an average purchase price and loan amount of \$66,104. For those veterans who obtained loans with a downpayment, the purchase price averaged \$92,056 with an average loan amount of \$80,494. Veterans obtained 5,307 manufactured home loans in calendar year 1986. The average purchase price for manufactured homes was \$22,659, with an average loan amount of \$22,255. Since the Loan Guaranty program was enacted in 1944, mortgage credit totaling over \$272 billion has been allocated to veterans. Much of

these funds would not have been made available without the benefit of this GI Bill program. Over \$103 billion worth of these loans have been repaid in full as of last year.

Mr. Chairman, we are continuing to experience a large number of GI loan defaults. During calendar year 1986, defaults averaged 15,066 per month, compared with 14,513 in calendar year 1985. Defaults reported appear to be remaining stable at relatively high levels.

As a result of the continued high level of defaults reported, there were 133,333 defaults pending as of December 31, 1986, an increase of 11.4 percent over the 119,717 defaults pending as of December 31, 1985. This, in turn, resulted in an increased number of foreclosures and claims. We paid 29,430 claims in calendar year 1985. This increased 18.1 percent, to 34,750 claims paid in calendar year 1986.

Mr. Chairman, you requested information on actions being taken to minimize property acquisition costs. VA has taken steps to cut the high claim costs caused by undue delay in foreclosures. The Notice of Default and Notice of Intention to Foreclose have been combined in a single format to facilitate prompt action by lenders in terminating insoluble defaults. In addition, a procedure has been implemented to ensure that seriously

delinquent loans which are not in foreclosure are reviewed and a date established to limit accrual of interest and additional charges if there is no supportable basis for extension of continued forbearance.

In an effort to reduce foreclosures, VA directed lenders to improve delinquent loan servicing. Lenders are now required to give the borrower written notice within 20 days after an installment is due and unpaid and follow up with an attempt at personal telephone contact. Current procedures also require that if no repayment arrangements can be made, the lender must attempt a face-to-face interview with the borrower before beginning foreclosure. The procedures are consistent with servicing standards set for conventional loans.

We would like to take this opportunity to comment on three areas of the property acquisition process which were mentioned by the Government Accounting Office (GAO) in testimony before the House of Representatives Housing and Memorial Affairs Subcommittee on May 13, 1987, as having potential for savings:

Obtain more voluntary deeds. It has been a longstanding VA policy to encourage lenders to pursue a voluntary conveyance when there is no reasonable alternative to loan termination and provided it is legally feasible and

in the best interest of the Government to do so. However, a voluntary conveyance will normally not be acceptable if the property is subject to liens in addition to the VA loan or the veteran appears to have the ability to reimburse the Government for the amount of any claim payment which VA will be required to make to the lender. VA acceptance of a voluntary conveyance of a property eliminates the veteran's responsibility for the debt, which would be inconsistent with the provisions of 38 USC 1816(a) and would make the GI loan benefit, in effect, an outright grant. We are exploring the GAO suggestion of accepting deeds when the veteran agrees to remain liable for the amount of claim paid.

Third Party Bidding. GAO proposes that VA reduce property acquisitions by encouraging third party bidders at foreclosure sales. They suggest more third parties would bid if VA lowered its determination of the net value of property. Presently, net value is determined by reducing the fair market value of the property by VA's estimated costs for acquisition, management and resale. This procedure is mandated by Public Law 98-369. We also note that, in our experience, most third party bidders at foreclosure

sales are speculators who are only interested in acquiring properties for substantially less than their fair market value. Lowering net value determinations to attract these third party bidders will greatly increase claims paid by VA, since we pay claims for the difference between the proceeds of the sale and the loan indebtedness. Increased claims will, in turn, create corresponding increases in veterans' debts to the Government.

Title insurance . We are looking into various methods for reducing title acquisition costs. In Texas, we have implemented a procedure which utilizes General Warranty Deeds in lieu of title insurance. We are also reviewing the proposal to accept title insurance policies which provide only partial coverage.

Mr. Chairman, I would now like to comment on VA's policies and practices with regard to forbearance. VA becomes personally involved with borrowers at an early stage of any delinquency and is often instrumental in assisting borrowers to avoid foreclosure and retain home ownership. We appreciate this opportunity to explain what steps are taken by VA to resolve loan delinquencies.

In a loan default case, the mortgage holder is responsible for contacting the borrower, determining the reason for the default, and making arrangements for repayment of the delinquency. If this cannot be accomplished by the time three installments are due and payable, the default must be reported to VA, together with the holder's explanation of the reason for the default and a summary of its servicing efforts. Upon receipt of such notice, VA takes an active role in working to protect the interests of the veteran borrower and the Government.

VA closely reviews the holder's servicing of the account and follows up by attempting to contact the borrower by letter, mailgram, telephone and/or personal visits to the property. Once contact has been established, based on the facts in the case, VA personnel may offer financial counseling and/or may intercede with the holder on behalf of the veteran in order to obtain forbearance or arrange a reasonable repayment schedule in appropriate cases. Also, VA is in contact with local agencies that provide assistance in finding jobs for borrowers, or aid with their daily subsistence needs or help in making direct mortgage payments. When appropriate, delinquent borrowers are referred to such agencies so that they may apply for benefits.

If no arrangements for reinstatement are made and if the holder files a Notice of Intention to Foreclose, VA requires that foreclosure procedures cannot be started for 30 days, during which period VA is afforded additional time to try to service the loan. Even after foreclosure has been initiated, supplemental servicing is continued in order to explore every possibility to assist the borrower.

Every case in which a holder has indicated it will not continue to extend forbearance is reviewed by our regional office personnel in order to consider refunding. In refunding cases, VA takes an assignment of the security instruments from the loan holder and the borrower is responsible for making payments to VA. The refunding review involves the evaluation of many factors, including the current reasonable value of the property, the amount of indebtedness, whether or not the veteran occupies the property, and the ability of the veteran to care for and maintain the property. In evaluating the veteran's income, we require that he or she presently have the ability to maintain the mortgage obligation or have the potential to resume regular payments within a reasonable time, and to ultimately repay the loan.

Our personalized approach to supplemental servicing of delinquent borrowers results in varying degrees of assistance

because the situation of each borrower is different. In addition, it is the loan holder which has primary responsibility to determine whether a repayment plan or continued forbearance is acceptable. We do not have the authority to require holders to grant forbearance.

Mr. Chairman, you also requested testimony on what could be done to reduce default rates on GI loans. We anticipate future defaults will be reduced by changes in our underwriting standards and procedures. We also plan to continue our program of supplemental servicing of delinquent GI loans in order to minimize the number which result in foreclosure. In addition, we are in the process of implementing a requirement that loan holders report all 90 day delinquencies and foreclosures to credit reporting agencies. Such reporting will provide incentive to borrowers to reinstate their loans before delinquencies become serious. It will also make it difficult for borrowers who are seriously delinquent to further over-extend themselves through new credit.

In the area of credit underwriting we recently revised our standards to provide, on a regional basis, guidelines for the minimum residual income needed to qualify for a loan. We also instituted the use of a debt-to-income ratio to assess the risk of a loan. Riskier loans require additional review and

justification if they are to be approved. While it is true that not all loan defaults and foreclosures can be related to underwriting (other factors include changing economic conditions and changes in health or marital status) a need for improvement in our standards was seen. The guidelines were intended to reduce the incidence of veterans being placed in homes which they could not afford.

Mr. Chairman, I am pleased to report that the VA has taken important actions to improve its appraisal system and is committed to continued efforts to ensure that the appraisal system is effective, viable and adequately protected from inappropriate appraisals and those who perform them. The VA is part of an interagency task force to look into the development of an appraiser certification and review system.

The VA was an integral member of the industry committee which convened over a three year period to develop a Uniform Residential Appraisal Report. We have adopted the newly developed form. The form is considered a positive step in the direction of standardization of appraisal reporting, which should improve appraisal quality. In addition, the VA has updated its definition of "market value" which serves to guide appraisers when assessing the value of a property. This update is consistent with appraisal definitions used by the

Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC) and the major real estate appraisal organizations. That definition directs appraisers to determine "the most probable price which a property should bring, or for which the appraised property should sell, in a competitive market, under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, and assuming the price is not affected by undue stimulus."

Mr. Chairman, I am sure the committee would also be interested in hearing of our current efforts in the area of Property Management. One provision of the Deficit Reduction Act of 1984, is the requirement that at least 25 percent of our properties be sold for cash during fiscal years 1985, 1986 and 1987. During fiscal year 1985, 27.5 percent of our total sales were for cash and during fiscal year 1986, we were able to increase this to 33.8 percent. Cash sales for fiscal year 1987 to date (through May) are 33.35 percent. Although cash sales are somewhat more difficult to make than term sales (vendee loans), once a property is sold for cash VA is no longer liable for future costs associated with delinquent loan servicing and foreclosure. These can be significant costs given that VA repurchases about 15 percent of all vendee loans sold.

After a significant inventory reduction in fiscal year 1985, the nationwide property inventory experienced a net increase of nearly 2,000 properties in fiscal year 1986. Property sales remained at nearly the same high level in fiscal year 1986 (only 2 percent below the fiscal year 1985 mark) but property acquisitions increased almost 18 percent over fiscal year 1985 acquisitions.

The lack of an overall, substantial reduction in inventory during fiscal year 1986 can give an inaccurate impression that our nationwide sales effort has been sluggish. In fact, our property sales problems are now principally located in the "energy belt." For example, if 3 regional offices (Denver, Muskogee and Houston) had just been able to "stay even" by selling the same number of properties that they acquired during fiscal year 1986, the sales results at the remaining 46 regional offices would have given VA a net inventory reduction of 3,677 properties. Today's inventory of properties on hand would be 17,010 instead of 20,687. Of the 29,972 properties acquired in fiscal year 1986, 26 percent were acquired by these 3 regional offices, with 17 percent of the total acquired by the Houston office alone. These 3 stations now account for nearly one-third (29 percent) of VA's on-hand inventory.

These are hard-hit real estate markets, with record levels of foreclosures and properties available for sale. Many potential buyers are reluctant to buy properties, particularly if substantial cash outlays are required, for fear that real estate values have not yet bottomed out. Under these conditions, we cannot pretend to have found effective marketing strategies which others in similar circumstances have not found. In an effort to overcome these adverse market conditions in the Houston area, our regional office is working closely with an advisory council of private sector real estate brokers. Substantial price reductions are being made, and more public advertising is being done. More timely service is being provided for purchase offer processing and sales closings. The amount of brokers' sales commissions has been increased from 5 to 6 percent. Additional personnel resources and contract money have been made available for property disposition operations. Auctions are being used to sell older properties. We have begun to see higher monthly property sales and purchase offers in the Houston office.

VA continues to acquire properties in these economically depressed areas because the level of loan terminations remains high. Foreclosures at our Houston, Waco, Denver and Muskogee

offices totaled 4,005 in the second quarter of fiscal year 1987, compared to 3,077 in the second quarter of fiscal year 1986. Among these liquidations, there are still numerous instances in which, after considering estimated property acquisition and disposition costs, the net value of the property indicates acquisition is in the best interest of the Government. However, the number of cases in which VA did not acquire a foreclosed property increased significantly from 401 (13.03 percent of liquidations) to 1,002 (25.02 percent of liquidations) at these offices between the second quarter of fiscal year 1986 and the second quarter of fiscal year 1987.

We project a gradual decline in property inventory over the next few fiscal years. Our regional offices have been successful in selling properties (over 56,000 in the last two years) and in reducing the average time properties are held (from 10.6 months in fiscal year 1985, to 8.8 months in fiscal year 1986, to 8.2 months in fiscal year 1987 to date). If the fiscal year to date sales velocity continues for the remainder of the fiscal year, we expect to sell between 32,596 and 32,733 properties. The highest number of properties ever sold by VA was 32,712 during fiscal year 1965. The problem continues to be that the level of new acquisitions has been significantly higher than anticipated, especially in areas most affected by the severe economic downturn in the energy industry.

Our efforts to dispose of inventory properties will continue to be based on timely pricing revisions, increased public advertising, and more effective cooperation with real estate professional groups in local areas. In addition, we will be using public real estate auctions as a supplemental sales technique, where appropriate, to dispose of those properties in inventory for the longest periods of time. The agency's inventory reduction goals have been included in the performance standards of our regional office directors.

Mr. Chairman, in addition to the areas I have just commented on, we would like to offer our comments on the proposal to require the underwriting of VA loans which are assumed and the concurrent release from liability of the original veteran owner and payment of a one-half of one percent fee by the assumer. Persons assuming VA guaranteed loans are receiving the advantage of favorable terms associated with VA guaranteed financing. It appears equitable that assumers should pay charges similar to those imposed on veterans. As to requiring underwriting of assumed loans similar proposals have been considered before and we continue to study them. Our initial review brings up both pros and cons. The need for underwriting could increase the cost of the sale as we have

noted with regard to lender fees on HUD loans. The need to underwrite would also increase the time taken to consummate the sale. Also, in a number of cases, veterans who would otherwise default on a loan are able to avoid default by virtue of a sale with the purchaser assuming the loan. On the other hand, a review of the credit worthiness of a person assuming a VA loan should reduce the possibilities of the loan being assumed by an unqualified purchaser, and would decrease the possibility of default and foreclosure. Such a requirement would also make the VA program more consistent with the requirements of HUD's program.

Some proposals tie the release of liability to the underwriting. We would prefer that the release of liability be an option of the Administrator rather than automatically granted. There may be some cases where the original veteran purchaser is in imminent danger of foreclosure which might be avoided through the sale of the property to a buyer who is a marginal credit risk. In these cases, it would be in the best interest of the Government to allow the sale to proceed in an attempt to save the loan but, because of the marginal quality of the buyer, to retain the right to collect from the original veteran if foreclosure is ultimately necessary.

Mr. Chairman, you requested that VA discuss several proposals currently pending before this Committee which pertain to veterans housing benefits.

The first measure is S. 9 the "Service-Disabled Veterans' Benefits Improvement Act of 1987." As you requested, Mr. Chairman, I will confine my remarks to the two provisions in that bill relating to housing loans.

Section 6 of S. 9 would increase the VA-loan guaranty from \$27,500 to \$36,000. We believe that an increase in the guaranty is not necessary at this time. The average VA loan amount in FY 1986 was \$70,912. The present law provides a 38.78 percent guaranty on the average loan, which is well in excess of the 25 percent coverage required in the secondary market. Therefore, VA opposes increasing the guaranty amount.

The other provision, section 8 of S. 9, would exempt a number of VA programs from sequestration under the provisions of the Balanced Budget and Emergency Deficit Control Act of 1985, commonly known as the Gramm-Rudman-Hollings Act, including the Loan Guaranty Program. As the Administration is committed to reducing the federal deficit, we strongly oppose this exemption to the Gramm-Rudman-Hollings Act.

The second measure, Mr. Chairman, is S. 920, the "Veterans' Housing Amendments Act of 1987." This bill, which is an important part of the Administration's legislative program, would make a number of amendments to the Veterans Administration Loan Guaranty Program to reduce administrative regulation and enhance revenues.

Section 2 of S. 920 would repeal the authority of the Administrator to set the maximum interest rate which veterans may pay on VA guaranteed home loans. Under the bill the veteran buyer, the seller, and the lender can negotiate on whether the rate, and thus the monthly payment, can be lowered in exchange for a certain number of points, and, if it is, who will pay some or all of such points. Thus, Mr. Chairman, the transaction can be tailored to fit the needs and circumstances of the parties involved.

This proposal would advance the Administration's goal of reducing Federal regulation and permitting market forces to operate. It would also be consistent with Pub. L. 98-181, which repealed the authority of the Secretary of Housing and Urban Development to set interest rates.

Section 3 of S. 920 would increase the present VA loan fee from 1 to 2-1/2 percent, effective June 1, 1987, and make collection of the fee permanent. Presently, the fee is set to expire September 30, 1987.

Since 1978 the Loan Guaranty Revolving Fund has required over \$2.2 billion in additional funds through transfers or appropriations in order to remain solvent. As a result of higher costs associated with property acquisitions and claim payments, a \$100 million supplemental appropriation has been requested to fund these expenses, currently estimated to be \$3.1 billion in FY 1987. If the fee remains at 1 percent, we project that an appropriation of \$389.8 million will be needed in FY 1988. If, however, the 2-1/2 percent were enacted, an appropriation in FY 1988 would probably not be necessary.

Because of the higher than anticipated levels of claims this year, it is essential that our appropriation request for FY 1988 in absence of a fee increase, be enacted. We will likely carry a smaller unobligated balance into the new fiscal year and we may experience claims higher than currently projected. Furthermore, the current FY 1988 baseline estimate by the Congressional Budget Office of \$109 million in budget authority is based on low estimates of delinquencies and claims. It will not be sufficient to support the program through FY 1988.

Section 4 of S. 920 is a technical amendment to authorize direct appropriations to the Loan Guaranty Revolving Fund. Although enactment of the loan fee increase proposed in section 3 of S. 920 should virtually eliminate the need for further appropriations, such action may nonetheless be necessary in the future. The two-step appropriation procedure currently in the law, i.e., appropriation to the readjustment benefits account, then transfer of the funds into the revolving fund, is unnecessarily complicated and tends to obscure the real financial requirements of operating the program.

Section 5 of S. 920, Mr. Chairman, would repeal certain requirements of the VA manufactured home loan program that VA believes to be no longer necessary. This section would delete the requirement that VA standards for manufactured home sites encourage that such sites be free from adverse scenic or environmental conditions. VA's standards only serve to duplicate existing State and local requirements and complicate the application process.

This section would also repeal the requirement that VA inspect the manufacturing process of manufactured homes and conduct on-site inspections of such units purchased with VA financing. The bill would further provide that any manufactured home that displays a certificate of conformity with Federal manufactured home standards would be eligible for purchase with VA guaranteed loans.

VA believes that the comprehensive scheme established under the National Manufactured Housing Construction and Safety Standards Act of 1974 is sufficient to insure that new manufactured homes purchased by veterans will be properly built and suitable for occupancy and use. VA inspections are therefore unnecessary.

In addition, S. 920 proposed one technical amendment. Engaging in actions unfair or prejudicial to veterans or the Government would be added as a basis for suspending a manufacturer of manufactured homes from participation in the VA program. Provisions of the law applicable to suspending other loan guaranty program participants authorize suspension for such prejudicial practices. We believe this technical correction is desirable.

Section 6 of S. 920 would repeal the requirement for a statement of local officials regarding the feasibility of public or community water and sewerage systems as a condition to the VA guaranty of loans for the purchase of newly constructed homes.

Other Federal, State, and local laws adequately address this subject. These certification requirements place an additional burden on local officials and program participants without materially benefiting the veteran.

Section 7 of S. 920 would specifically authorize the Administrator of Veterans' Affairs to establish an appraisal system whereby appraisal reports completed by VA designated fee appraisers would be received and reviewed by approved lenders without VA staff involvement. This system would be similar to the HUD direct endorsement program which has been in operation since 1983. This system would provide more timely service to veterans and would allow field stations to more effectively perform program surveillance activities in view of current staffing constraints.

Section 8(a) of S. 920 would eliminate the October 1, 1987, sunset for the claim payment and acquired properties provisions in subsections (c) and (d) of section 1816 of title 38, United States Code.

Under 38 U.S.C. section 1816(d), VA must sell at least 60 percent, but not more than 75 percent of acquired property with vendee financing. S. 920 would also reduce these limits so that VA must sell at least 40 percent, but not more than 60 percent of acquired properties with vendee financing.

Subsections (c) and (d) were enacted in 1984 to (1) reduce the Government's losses on foreclosure of VA guaranteed loans and the subsequent resale of VA acquired properties; (2) enable the VA to convert loan and property assets into liquid assets for the Loan Guaranty Revolving Fund; and (3) insure that the VA home loan program would continue to provide a viable benefit for veterans and lenders. Experience has shown that these procedures have worked well. The basic framework created is sound and should be continued to reduce VA's future contingent liability on vendee loans.

Accordingly, Mr. Chairman, VA urges enactment of S. 920.

Mr. Chairman, you also requested comments on proposed legislation to amend title 38 U.S.C. chapter 37 to limit refinancing loan amounts. It appears there are funds available in the private sector for refinancing loans. This raises the question of whether there is a need for VA to be guaranteeing this type of loan. Rather than commenting on a legislative

change at this time we would prefer to study the situation and report to the Congress at a later date. As we understand this proposal it would have no impact on the ability of a veteran to secure a loan solely for the purpose of reducing the rate on an existing VA loan.

The final measure I will discuss, Mr. Chairman, is House Concurrent Resolution 79, passed by the House on April 27, 1987, expressing the sense of the Congress that the VA loan fee not be increased above the current 1 percent. As I testified with regard to S. 920, Mr. Chairman, the increasing costs of the Loan Guaranty program and the depletion of the Revolving Fund make increasing the fee to 2-1/2 percent necessary. This additional fee, if financed, would increase the average monthly mortgage payment by less than \$10, yet it would obviate the need for over \$1.5 billion in appropriations over Fiscal Years 1988 to 1992. The increased fee, while making the program solvent, will not impact the primary benefit of the program, which is the no-down payment feature. Accordingly, VA strongly opposes enactment of House Concurrent Resolution 79.

Mr. Chairman, you also invited comments on possible improvements as to the type and availability of financial counseling

available to veterans at the time of loan application. Presently, VA conducts a home counseling service in 23 cities to provide prospective home buying veterans advice and assistance in practical aspects of home buying and homeownership. Minority veterans comprised 8,930 of the 15,929 veterans counseled in FY 1986, reflecting the thrust of the program toward aiding minority veterans. Since the inception of the program in 1973, over 79,000 minority veterans and 141,000 veterans overall have been assisted by this home counseling service. In addition to this formal counseling program, we also provide information, which can include financial counseling, to both veterans obtaining VA loans and those holding VA loans on an as requested basis. In light of current budgetary and personnel constraints, and considering VA's role as a guarantor of loans, rather than a lender, we do not believe expansion of VA's financial counseling program for loan applicants would be appropriate at this time.

In appropriate cases delinquent borrowers are offered financial counseling by VA Loan Service representatives as part of our supplemental servicing effort. Financial counseling by VA entails a complete analysis of the borrowers' financial situation, including review of total household income, assets, expenses and liabilities, and a determination of the borrowers' net worth. This analysis is followed by the preparation of a proposed budget which should enable the borrowers to meet their financial obligations and avoid the loss of their home.

There has also been a proposal to permit veterans who have been transferred and no longer occupy the home to obtain interest rate reduction refinancing loans. There was a similar proposal during the last session of Congress, S.2475, on which we commented unfavorably due to the non-occupancy by the veteran and our concern over creating an investment program rather than one aiding homeownership. After further study we realize that this proposal would benefit veterans, such as active duty military, foreign service personnel, and other veterans whose jobs require periodic transfer. These veterans may continue to own a former residence to which they plan to return at some future time, e.g. after they retire. We therefore would not object to this proposal, if it was limited to one-time use for active duty foreign service and military personnel who certify that they intend to reoccupy the property in the future. We note that H.R. 1452, on which you requested comments, would not limit this special refinancing provision to a one time use.

Mr. Chairman, there were also two Budgetary items that you wished us to comment on. They are the sale of portfolio loans without repurchase agreements and the sale of \$900 million of VA's loan portfolio over a three-year period.

The fiscal year 1988 budget submission contains a provision for the sale of vendee loans without recourse (repurchase agreement). As you know, vendee loans experience foreclosure rates three times that of guaranteed loans and four times that of conventional loans. Because VA sells these loans with recourse the VA frequently must repurchase, foreclose, and resell the property securing these loans. At this time, substantial servicing costs and property losses are incurred. We would prefer to sell the loans without recourse if we can obtain a reasonable market price in order to obviate future losses.

VA participated in a Government-wide pilot program during FY 87 for the sale of loan assets without recourse. Loans with a total principal balance of \$84 million were offered through a sealed bid auction procedure on April 14, 1987. The sale was advertised in the Wall Street Journal and publicized in trade journals. This was preceded by discussions with mortgage bankers and investment brokers concerning the nature of the product and marketing procedures, and by preparation of an information package describing the loans offered and past portfolio performance. There was considerable interest generated in the offering; however, the actual bidding was light. Prices ranged from 15 to 67 percent of par value and no bids were accepted.

There are several factors which negatively affected the sale. Interest rate volatility almost certainly reduced investor interest. Mortgage rates increased well over 1 percentage point during the weeks before and after the sale. Investors are typically unwilling to commit funds for long term investments during such periods. This is particularly true for new products, such as vendee loans sold without recourse. The interest rate differential alone on loans to be sold versus the market rate accounts for a large discount in loans being sold. This was evident in our sale on May 19, 1987, of vendee loans sold with recourse.

In response to the results of this attempted sale, for FY 1988, VA is exploring alternative marketing procedures for selling new vendee loans without recourse, including the procurement of the services of a Financial Advisor to assist in structuring and marketing the loans offered for sale.

Our entire loan portfolio is scheduled for sale without recourse in the amount of \$300 million over each of the next three fiscal years. Anticipated proceeds are \$210 million for each year. Marketing procedures developed for the sale of new vendee loans (with the assistance of a Financial Advisor) should also be applicable to these loans.

The financing needs of the program are such that \$630 million in cash over the next three years would significantly bolster the Revolving Fund. However, the cash flow from these poor quality loans is uncertain and could vary considerably in the future because nearly 2/3 of the loans slated for sale are in a state of chronic delinquency. Because these loans are expensive to service and repayments are irregular, we believe the sale of these loans without recourse is in the best interest of the Government.

Mr. Chairman, you also requested our comments on staffing and ADP equipment in VA regional offices. Although the home loan program has been experiencing heavier workloads due to lower interest rates, we have been able to effectively manage the program without any significant increase in employment. We have accomplished this through the use of overtime and contract funds, increased computer modernization of work processes, and emphasis on automatic loan processing. We believe we can continue to provide timely and quality service to veteran homebuyers with the resources available to us.

For FY 1987, VA is authorizing the purchase of ADP equipment to be utilized in selected Loan Guaranty Divisions across the country. Primarily the equipment will be used in the Property Management area, as an electronic bulletin board which lists

properties available for sale, and as a property inventory tracking system. Enhancing our automation efforts will help to reduce backlogs and lead to greater efficiency in program operations.

Mr. Chairman, this concludes my statement. I would be pleased to answer any questions that you or any member of the committee may have.

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STATEMENT OF SENATOR PETE V. DOMENICI

VA HOME LOAN INCOME REQUIREMENTS

SENATE VETERANS AFFAIRS COMMITTEE

JUNE 17, 1987

I thank the distinguished Chairman for the opportunity to share my remarks with the Committee.

I would like to take a few moments to discuss a matter of particular concern for many New Mexico veterans.

Last year, the Veterans Administration (VA) implemented new guidelines to determine home loan eligibility. These guidelines use Bureau of Labor Statistics (BLS) figures for particular geographic regions. Previously, VA regional officials used local economic factors.

Under the new guidelines, regional VA home loan officials compare an applicant's residual income with the Bureau of Labor Statistics guideline. Residual income is calculated as gross income, minus taxes, utilities, installment obligations, principal, interest, and insurance. After estimating the applicant's residual income, the home loan officer determines whether the veteran qualifies for a guaranteed loan.

New Mexico has been placed in the VA's Western region, where the residual income, for a family of four, is calculated at \$941 monthly. By contrast, the residual requirement for a similar applicant in the Southern region is \$868. In the Midwest region, it is \$848.

This differential has hurt many New Mexican veterans. The family income of New Mexicans is not on par with those of California. They should not be treated in the same manner when applying for VA loan assistance.

Quite simply, Belen, New Mexico is not Beverly Hills, and Mountainair, New Mexico is not Bel Air.

Mr. Chairman, earlier this year the VA proudly guaranteed its 12 millionth home loan. When President Roosevelt signed the Servicemen's Readjustment Act of 1944, it literally opened the door to home ownership for many veterans. By helping the veteran purchase a home, it has had a positive effect on the real estate industry for over 40 years. The program has also had a positive effect on many veterans, as it has given him and her the opportunity to provide a home for their families.

I am saddened to think that many New Mexico veterans will no longer be able to buy that first home, simply because Washington has determined that New Mexico's income levels are among the highest in the nation.

I sincerely hope the Committee and the VA will consider this situation.

Thank you.



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202-861-6500

Mortgage Bankers Association of America

STATEMENT OF

THOMAS M. FRENCH, JR.
CHAIRMAN OF THE BOARD
BANCOSTON MORTGAGE COMPANIES, INC.

on behalf
of the

MORTGAGE BANKERS ASSOCIATION OF AMERICA

before the

COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES SENATE

Hearings on

The Veterans Administration Home Loan Guaranty Program

June 17, 1987

Mr. Chairman and members of the Committee, my name is Thomas M. French, Jr. I am Chairman of the Board of BancBoston Mortgage Companies, Inc. I am also President of the Mortgage Bankers Association of America (MBA).^{*} Accompanying me today are Burton C. Wood, MBA's Legislative Counsel, and Linda K. Bumbalo, MBA's Associate Legislative Counsel.

MBA appreciates the opportunity to appear before you today to testify on the Veterans Administration (VA) Home Loan Guaranty Program, especially those issues affecting the current no-bid crisis; the solvency of the loan guaranty revolving fund; the operations management by the VA of the program; assistance to veterans who have defaulted on their loans; certain provisions of S 9, the "Service-Disabled Veterans Improvement Act of 1987," and S 920, the "Veterans' Housing Amendments Act of 1987."

MBA testified before this Committee on February 19, 1987, on the Administration's budget proposals for FY 1988. At that time we urged the Committee to reject the proposal to increase the 1 percent funding fee (due to expire on September 30, 1987) to 2.5 percent. MBA applauds the action of the Committee in reporting to the Senate Budget Committee that you are opposed to further fees being imposed on veterans who

^{*}The Mortgage Bankers Association of America is a nationwide organization devoted exclusively to the field of housing and other real estate finance. MBA's membership comprises mortgage originators and servicers, as well as investors, and a wide variety of mortgage industry-related firms. Mortgage banking firms, which make up the largest portion of the total membership, engage directly in originating, selling, and servicing real estate investment portfolios. Members of MBA include:

- | | |
|---------------------------------|---------------------------------|
| o Mortgage Banking Companies | o Mortgage Brokers |
| o Commercial Banks | o Title Companies |
| o Mutual Savings Banks | o State Housing Agencies |
| o Savings and Loan Associations | o Investment Bankers |
| o Mortgage Insurance Companies | o Real Estate Investment Trusts |
| o Life Insurance Companies | |

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want to buy homes. MBA urges you to approve H Con Res 79, reaffirming the sense of Congress that the 1 percent fee charged by the VA to veterans obtaining a guaranteed home loan should not be increased. H Con Res 79 was adopted by the House of Representatives on April 27, 1987, and referred to your Committee on April 28, 1987. Similarly, MBA urges your approval of H Con Res 78, a resolution expressing Congress' firm support for the goals and objectives of the VA loan guaranty program and to the veterans and service personnel whom it has served so well.

The darkest cloud hanging over the home loan guaranty program is the no-bid crisis, which is exacerbated by depreciation in home values and by VA delays in administering foreclosure cases. MBA urges Congress to evaluate the entitlement nature of the VA program and to determine whether the Congress intends that the VA home loan guaranty program should continue as presently structured. Given the no-bid situation under the current framework of the program, it is uncertain whether veterans in all parts of the country will be able to secure VA home loans. The authority for the current VA claim payment formula is scheduled to expire on September 30, 1987. At a minimum, if the no-bid formula is extended, the extension should be a temporary one, and changes should be made that would reduce the number of no-bids that are caused by depressed property values and by delays in the foreclosure process.

In particular, MBA urges that the claim payment formula should be modified to limit the losses suffered by lenders on VA no-bids that are a result of steep depreciation in home property values due to depressed economic conditions. Congress should also either provide sufficient staff resources to the VA or delegate foreclosure authority to lenders in order to reduce delays. In addition, accrued interest should not be included in the no-bid formula in certain cases where there are delays in the foreclosure process beyond the control of the lender. These include avoidable delays caused by the VA after the lender is

in a position to foreclose; unavoidable delays, such as bankruptcy; and delays caused by forbearance.

MBA will continue to work closely with the Committee and with the VA to ensure that the home loan guaranty program can fulfill its goals and objectives of helping veterans buy and remain in their homes. In particular, MBA strongly supports efforts to improve program management and streamline techniques and procedures to maximize the utilization of limited staff resources. MBA strongly urges an increase in the maximum guaranty amount and exemption of the home loan program from sequestration under the "Balanced Budget and Deficit Control Act of 1985" (PL 99-177). Concerning the sale of assets without recourse, MBA believes that this should be approached cautiously because the assets would have to be sold at heavy discounts, resulting in losses to the Loan Guaranty Revolving Fund that would have to be made up with appropriations.

The VA should improve its performance in selling VA-acquired properties and should not not require underwriting for all assumption transactions. In addition, MBA offers its comments later in this testimony on the sale of the \$900 million loan portfolio, on the recent increases in the administratively set VA interest rate, on lender review of appraisals, and on providing to veterans who have defaulted on their loans financial counseling in the hope of avoiding foreclosures.

There are additional adjustments that MBA believes should be made to the home loan guaranty program. The VA should be authorized to guarantee adjustable rate mortgages (ARMs) with consumer-oriented limits that are identical to those applicable to the Federal Housing Administration (FHA) ARMs program. And, with respect to making vendee loans, the Administrator should not be subject to quotas when selling properties acquired by the VA.

OPERATION OF THE VA HOME LOAN GUARANTY PROGRAM

The VA home loan guaranty program is an entitlement program established under the Serviceman's Readjustment Act of 1944. The program's purpose is to assist qualified veterans to achieve homeownership. The program provides two primary benefits to qualified veterans. First, the VA guarantees a portion of the veteran's mortgage principal. The amount of this guaranty has varied over the years and is now 60 percent of the loan amount, up to a maximum of \$27,500. Because of this guaranty, mortgage lenders are able to provide veteran homebuyers with financing at a lower rate than would be available without the program. The second benefit offered by the program is the stipulation that no downpayment need be required by the lender. A loan with no downpayment is a "100 percent loan" because the loan amount is 100 percent of the value of the property. On an annual basis from 1977 to 1986, between 58 percent and 74 percent of VA-guaranteed loans closed were 100 percent loans. (See Exhibit 1.)

Since the VA initiated its program in 1944, 12 million loans have been guaranteed under the VA home loan guaranty program. The vast majority of those loans have cost taxpayers only the administrative cost of processing the initial approval. The total mortgage amount of the 12 million guaranteed loans over the life of the program is \$275.4 billion. Veterans have proven to be good credit risks. Through Fiscal Year 1986, 7.5 million guaranteed loans, totaling \$102.7 billion, have been paid in full.

The budgetary mechanism for the loan guaranty program is the Loan Guaranty Revolving Fund (LGRF). The fund was established to balance the income and expenses associated with operating the program. Income for the fund is derived primarily through the sale of "vendee" loans. Vendee loans are direct loans made by the VA to finance the sale of VA-

acquired properties. Expenses incurred by the LGRF are predominantly from the acquisition of foreclosed properties securing guaranteed loans.

Historically, when the LGRF was in a deficit position, the VA transferred earnings from its Direct Loan Revolving Fund (DLRF). The DLRF was created in 1950 to make direct loans to veterans who lived in housing credit short areas and could find no private lender to make a VA-guaranteed loan. In these cases, the VA acted as lender and the interest on the direct loans provided the VA with net earnings in the DLRF.

In 1981, the VA was instructed by the Administration to make no more direct loans except to severely disabled veterans for specially adapted housing. In 1982, the Administration initiated a policy of selling federal assets, which has resulted in the sale of most of the portfolio of direct loans held by the DLRF. Consequently, the role of the DLRF as a source of income for the LGRF has been diminished.

PROVISIONS OF S 9

There are two provisions in S 9, introduced by Senator Alan Cranston on January 6, 1987, about which you have asked us to testify. Our comments are as follows.

INCREASE IN MAXIMUM GUARANTY

MBA supports an increase in the maximum guaranty. The proposal included in Section 6 of S 9 would increase the maximum amount from \$27,500 to \$36,000. Such an increase would bring the relationship between the level of the guaranty amount and the ever-increasing cost of new and existing housing closer to historical ratios. The VA

guaranty has not been raised since 1980.

Lenders ordinarily lend up to four times the guaranty amount, or up to \$110,000, with no downpayment. In many areas, the applicable maximum allowable mortgage amount for VA does not reflect the realities of the housing marketplace. In those areas where the maximum amount is insufficient, homebuyers who might rely on the no-downpayment VA home loan program are deprived of this available financing vehicle. And, in many instances, these homebuyers have no other alternative sources of credit.

From 1974 to 1986, the median price of new single-family homes jumped from \$35,900 to \$92,000, an increase of 156.3 percent. Had the VA maximum guaranty been adjusted annually in equal proportion to the increase in new home prices, the 1986 guaranty would have reached \$44,847 (Exhibit 2).

During the same period, the median price of existing single-family homes increased over 150.9 percent, from \$32,000 in 1974 to \$80,300 in 1986. Adjusting the VA maximum guaranty for annual increases in existing home prices for this period would have resulted in a maximum guaranty of \$43,914 in 1986 (Exhibit 2).

EXEMPTION FROM SEQUESTRATION

MBA strongly supports Section 8 of S 9 specifically exempting benefits under the home loan guaranty program from any sequestration order, or sequestration law enacted, for any fiscal year after FY 1986. MBA urges that Congress enact it into law.

With the enactment of the "Balanced Budget and Deficit Control Act of 1985" (PL 99-177), the Gramm-Rudman-Hollings Act, the parameters of the budget process, as it affects the smooth operation of the VA home loan guaranty program, are not as clear as they have been in the past. The status of the VA home loan guaranty program should be clarified.

PROVISIONS OF S 920

S 920, the "Veterans' Housing Amendments Act of 1987," was introduced at the request of the Administration by Senator Alan Cranston on April 3, 1987. There are a number of provisions about which you have invited our testimony: the "no-bid" formula, lender review of appraisals, and quotas for vendee loans.

NO-BID CLAIM PAYMENT FORMULA

Serious problems exist through no fault of the VA or the mortgage lending industry. Rather, the VA-guaranteed home loan program as an entitlement is in jeopardy because Congress has changed the program, with the ultimate result that it is the veteran who will suffer. Under the claim payment formula enacted by Congress in 1984, the number of foreclosed guaranteed loans that result in no-bids has dramatically increased. Application of the VA no-bid formula is scheduled to sunset September 30, 1987. MBA believes several changes should be made to the formula.

Under the default and foreclosure provisions of the VA home loan guaranty program, the VA has always had the option of either taking title to a foreclosed property and paying the

lender the loan amount or leaving the property with the lender and paying the lender only the guaranty amount (a "no-bid"). Although the VA had the authority to exercise the "no-bid" option, prior to August 1984 it did so only in very isolated cases. However, in the "Deficit Reduction Act of 1984" (PL 98-369), Congress included a specific formula that significantly altered VA foreclosure claim practices and forced the VA to enter into more no-bids. This change represented a drastic departure from practices of the previous 35 years of the VA home loan guaranty program during which the VA, in almost 99 percent of the cases, paid the entire loan amount to the lender and acquired the property.

~~101. 102.~~ Foreclosures of VA-guaranteed home loans have more than doubled in the last five years, with most of the increase concentrated in geographic areas of the country that have been devastated by severe economic setbacks (Exhibit 3). With increasing frequency (from 238 cases in 1982 to 5,236 cases in 1986) (Exhibit 4), the VA has been paying the lender only the guaranty amount and leaving the foreclosed property with the lender. Especially in the geographic areas of the country that have been devastated by severe economic setbacks, the property left to the lender has depreciated in value from the time the loan was made, and the lender cannot recover the outstanding debt from the property. The no-bid situation has caused lenders to suffer severe losses. With an average net loss per loan of \$16,500, industry-wide losses totalled more than \$86 million in 1986.

Congress has shifted the risk of VA-guaranteed home loans to private lenders, leaving them with little choice but to make business decisions to deal with this shift of risk. A survey by the Mortgage Bankers Association of America (MBA) reveals that 50 percent of its members have already implemented changes to deal with the no-bid crisis. In some cases, lenders have stopped originating VA-guaranteed loans. Some lenders are examining closely the Certificate of Reasonable Value (CRV) and are reducing the amount they will lend if the CRV is higher than the lender thinks it should be for loan

purposes. If the no-bid situation continues to deteriorate, some lenders may require a downpayment on VA home loans. The no-bid problem forces lenders to increase requirements that will make mortgage credit more difficult or impossible for veterans to obtain.

The Formula. The statutory formula contained in 38 USC 1816, which is used to calculate whether a VA foreclosed loan results in a no-bid, is as follows. If the the veteran's total indebtedness is more than the net value of the house (appraised value reduced by VA administrative costs equal to 10.5 percent of the loan) and the amount of that excess debt is more than the guaranty amount, the VA pays the lender the guaranty amount and does not acquire the property. The veteran's total indebtedness includes the unpaid principal plus the interest that has accrued on the loan as of the liquidation sale, or such earlier date following the expiration of a reasonable period for the sale to occur as the Administrator may specify. The amount of accrued interest due to delays in the foreclosure process increases the veteran's total indebtedness and in some cases turns the foreclosure into a no-bid.

Legislative Proposals. MBA urges Congress and the VA to change the statutory formula for determining claim payments to take into consideration the extraordinary plight of both homeowners and lenders in areas of serious economic distress, with a view toward significantly lowering the number of no-bid cases in such areas. If Congress chooses to extend the formula, that extension should not be permanent and should be for no more than an additional year. If Congress chooses to extend the VA no-bid formula, it should change the formula to lessen the harsh treatment to lenders, particularly in economically depressed areas, under the current formula.

This spring, MBA formed a special VA Subcommittee to review the current no-bid situation and to formulate recommendations to remedy the problem. As a result of the discussions held by the special Subcommittee and resolutions enacted by MBA's Board of Governors, MBA urges the following steps to alleviate the no-bid problem.

Relief for Decline in Value. MBA urges legislation to limit the amount of losses from VA no-bids that are a result of steep depreciation in property values due to depressed economic conditions. MBA proposes a change in the claim payment formula that will address geographic disparities by evaluating the depreciation in property values on a case-by-case basis.

MBA proposes that in the case of a no-bid where the value of the property has declined more than 15 percent, the lender should have the option of either (1) being paid the amount of the guaranty and taking title to the property, or (2) conveying the property to the VA and forfeiting 5 percent of the amount of the outstanding debt at the time of liquidation.

Devastating deterioration of property values is wreaking havoc on veterans and lenders. On a case-by-case basis, differences in the appraised values at the time of loan origination and at the time of foreclosure represent the best available indicator of economic problems in specific areas. While still providing that the lender share the amount of loss with the VA, this proposal would cap lenders' maximum no-bid exposure in those situations where vast declines in market values have occurred.

Accrual of Interest. MBA urges a change in the formula that would decrease the number of no-bids that occur solely as a result of delays during the period that a loan is in default before the liquidation sale. Specifically, the veteran's total indebtedness

increases when a foreclosure sale is delayed because interest continues to accrue during this period.

Due to bankruptcies, forbearance, and VA processing backlogs, many delays in the foreclosure process are beyond the control of the lender. Interest accrual caused by these types of delays should not be held against the lender in the VA's formula.

MBA proposes legislative relief so that the amount of interest included in the formula calculation would be limited to 90 days, which is the customary default period prior to initiation of foreclosure. However, in those cases where the VA acquires the property and pays the claim, the lender should be reimbursed for all of the interest that is accrued on the loan as of the date of the liquidation sale.

LENDER REVIEW OF APPRAISALS

MBA believes that Section 7 of S 920 has merit. Under this proposal the lender would review the appraisal and determine the maximum mortgage for guaranty purposes. In light of the lender's ultimate financial responsibility under the VA no-bid process, MBA believes that the lender should be involved in determining its potential liability in the origination of VA loans. MBA specifically urges that if lender review of the appraisal indicates that the value placed on the property by the appraiser is too high, it would be appropriate for the lender to adjust downward the maximum amount that it lends to the veteran. Under this change, VA would still approve and select the appraiser to perform the appraisal.

QUOTAS FOR VENDEE LOANS

In the "Deficit Reduction Act of 1984" (PL 98-369), limitations for vendee loans were set for the VA in order to minimize the use of vendee loans to the greatest extent possible consistent with maintaining the effective functioning of the VA home loan guaranty program. At least 60 percent of the purchases by private buyers of property acquired by the VA are required to be financed by the VA, with the maximum set at 75 percent. The President's FY 1988 Budget proposes to reduce this limitation on the number of vendee loans to between 40 and 60 percent of such sales. MBA urges that the quota concept be removed, and that the VA be allowed to use guaranteed vendee loans as fully as it deems economically advantageous in selling property acquired in the home loan guaranty program.

The intent of our recommendation is that a VA determination to make a vendee loan should not be based on an arbitrary quota, but rather on a case-by-case basis. If Congress eliminates statutory quotas, it should make it clear that the VA should use vendee loans as fully as it deems necessary to facilitate the sale of VA-acquired properties. The VA should have as much flexibility as possible in the use of vendee loans. Most vendee loans are made on foreclosed properties in economically depressed areas of the country where, because of market forces, private lenders are reluctant to provide financing without a downpayment. Because the VA field office can adjust the downpayment requirement on a vendee loan to what the market will bear, the likelihood exists that the property will be sold more quickly with a vendee loan.

PROGRAM-WIDE ISSUES AND PROPOSALS

In your letter requesting that MBA testify at this hearing, you asked us to address a number of proposals, including budgetary items, that would effect changes to the home loan guaranty program and to the loan guaranty revolving fund. MBA would like to offer the following comments on those items.

SALES OF LOANS WITHOUT RECOURSE

MBA opposes the proposal in the Administration's 1988 Budget (Appendix, page I-Y16) to have the VA sell vendee loans in all cases without recourse. The sale of vendee loans without recourse shifts the credit risk of default from the VA to the private investors, who necessarily adjust their purchase prices accordingly. The General Accounting Office concluded in a September 1986 report, LOAN ASSET SALES: OMB Policies Will Result in Program Objectives Not Being Fully Achieved, that the sale of loan assets without recourse would preclude the government from taking advantage of existing secondary credit markets and from maximizing proceeds from loan sales. It can be expected that the reduction in the sales price paid to the Government by private industry buyers of vendee loans without recourse will be greater than the deficit savings the Government might realize by transferring the risk of default. The assets would have to be sold at deep discounts, resulting in losses to the LGRF that would have to be replaced with appropriations.

It is important to note that only vendee loans sold with recourse can be put into mortgage pools backing GNMA securities. If these loans are sold without recourse, these mortgages could not be placed in GNMA pools, thus losing the attractive investment and marketing advantages offered by GNMA. This means the loans would be sold at unnecessarily depressed prices, or might be altogether unmarketable.

SALE OF LOAN PORTFOLIO

The vast majority of the VA's direct loans have already been sold, and VA essentially no longer makes direct loans. Vendee loans to finance the sale of VA-acquired properties are sold on a regular basis and as soon as practicable. The \$900 million portfolio that would be sold consists of assets that have limited resale value. They include loans with very low interest rates, loans secured by property with title problems, and delinquent loans. MBA believes that the VA should maximize its return on these assets by prudent management. The VA should determine whether the sale price for these assets would be so low as to preclude any deficit savings.

PROGRAM MANAGEMENT

From an historical perspective, the VA home loan guaranty program has worked well, helping millions of veterans become homeowners. Congress, the VA, and the mortgage industry have worked together over the years to address concerns that have arisen in the course of delivering the home loan entitlement program to veterans. As economic conditions change and federal budget restraints increase, program management techniques need to be improved in order to preserve the objectives of the program.

Staff Functions. The home loan guaranty program suffers needless losses because of VA staffing inadequacies. Because the likelihood of increased staffing is remote, MBA believes that available staff resources should be maximized by streamlining the loan processing workload. Performance of some steps in processing loans could be shifted from the VA to lenders. With lenders performing more of the work, the VA staff could be utilized more efficiently by concentrating on those functions that are essential for VA staff to perform. For example, at present, VA field staff must fill out the Loan Guaranty

Certificate (LGC) entirely. If lenders who already make the critical underwriting decision on the approval of the veteran would be permitted to perform the clerical process of completing the LGC, it would save VA staff valuable time that could be devoted to more crucial functions.

In addition, to deal with the requirements of the Gramm-Rudman-Hollings Act, the VA has implemented an elaborate system to track its credit utilization. Under the Loan Authorization Tracking System (LATS), it is necessary for lenders to obtain an authorization number from a VA field station prior to the closing of each loan. This time-consuming requirement is particularly frustrating because the VA presently has no credit limitation for FY 1987. As previously recommended, the VA should be formally exempted from the sequestration process to eliminate this unnecessary requirement.

Finally, additional authority for foreclosures should be delegated to lenders. The delegation of foreclosure authority would not only reduce delays in the process and thereby save money, but it would also allow existing staff to monitor and audit lender performance to assure integrity of the system.

INCREASE IN VA INTEREST RATES

MBA shares your concern about the recent rise in mortgage interest rates generally. However, had the VA not acted prudently in raising its maximum interest rate, we believe the impact would have been far more severe on veterans.

Because of the dramatic and sudden increases in interest rates throughout the capital markets which took place in April, investor yield requirements for mortgage-backed securities rose correspondingly. As a result, had the VA not raised the interest rate in

response to this shift, the only alternative to make VA mortgages competitive in the marketplace would have been to increase the number of discount points charged the seller at closing.

The impact of higher points is clear from the following example. Because discount points were over five points when VA increased the rate both times, we will use six points to illustrate the problem. Assuming a \$75,000 mortgage, an additional \$4,500 would be required from the seller to close that particular transaction. Faced with this prospect, many sellers will simply refuse to close the loan and pay these fees, thereby denying the veteran homebuyer the opportunity to purchase the home. On the other side of the transaction, veterans who are selling their homes would have to pay these points, which would increase their costs if the buyer also was a veteran.

To sum up, the marketplace determines the yield that mortgages must generate. Yield is determined by the interest rate and discount points. VA officials must react to market indicators and increase interest rates to keep discount points reasonable. Failure to react to market shifts by keeping the interest rate at an artificially low level will simply increase the number of discount points and cancel many viable transactions. As a result, we believe that the VA acted properly in increasing the maximum interest rate.

UNDERWRITING ON ASSUMPTIONS

MBA recommends that underwriting of all purchasers assuming VA loans be mandatory for all assumptions that occur in the first year of the mortgage.

MBA believes that this action is necessary to address abuses that have been uncovered involving assumptions that occur shortly after loan closing. However, MBA does not

believe that it is appropriate to require underwriting in all assumption transactions. We are unaware of any documented abuses that would justify the delay and expense associated with an underwriting review of all loans.

In cases where new underwriting on assumptions is required, MBA believes that lenders should be adequately compensated for their costs incurred in checking the creditworthiness of the purchaser.

MBA has no objections to the payment by the buyer of the property of a 0.5 percent fee to be shared with the LGRF.

ASSISTANCE TO VETERANS

FINANCIAL COUNSELING

MBA supports the concept of possible improvements in the type and availability of financial counseling for veterans, particularly at the time of loan application and delinquency. The Government Accounting Office (GAO), in its recent findings on the home loan guaranty program, found that although financial assistance options exist for the defaulting veteran, the VA does not voluntarily provide such information. In its testimony before the House of Representatives VA Subcommittee on Housing and Memorial Affairs on May 13, 1987, the GAO stated that unless the veteran is aware of and requests information on financial assistance, the VA usually does not provide it.

According to the GAO, the options that currently exist are not being fully utilized. Before studying whether these options should be made more available, the threshold issue

is how an already inadequate staff could further stretch itself to another area of service. In fact, the VA does not even have a system to determine the number of delinquent loans that can be effectively handled by its servicing technicians. MBA believes that the time for analyzing what assistance would most benefit the veteran without needless program complications is when adequate staff for loan servicing could be assured.

MBA emphasizes, however, that ideal loan servicing conditions can do nothing for bad market conditions. In those areas of the country suffering from severe economic setbacks, loan servicing can do little, if anything, to help defaulting veterans. The real solution is an economic recovery for distressed areas.

RESTRICTIONS ON REFINANCINGS

MBA believes that restrictions on refinancings hurt veteran homeowners because they are precluded from taking advantage of lower interest rates.

Active-duty military personnel would be exempted from certain restrictions under HR 1452, introduced in the House of Representatives by Representative Marvin Leath on March 5, 1987. It would permit refinancings of VA loans by those personnel who have been transferred. Currently, borrowers must occupy the property in order to originate or refinance a VA-guaranteed loan. However, borrowers are not precluded from renting a property, so long as they originally intended to occupy the property. Given that the transferred personnel are not prohibited from renting the property under the original loan, it seems reasonable and consistent to permit that same active-duty military personnel to refinance the loan without meeting the residency requirements. MBA agrees that the public purposes of the VA program—to foster homeownership—are served by requiring borrowers to certify, at the time they originate a loan, that they intend to occupy the

property. However, for refinance purposes, there should not be an occupancy requirement for active-duty transferees, nor should veteran borrowers be required to certify their intentions to occupy the properties after refinancings. MBA wonders whether, if the veteran has moved out of the property, it is the intention of the Committee to force the veteran to sell the property rather than being able to improve the financing for that property.

One of the advantages of allowing refinancings is that a loan at a lower interest rate would be a less risky loan because loan payments would be reduced. At the same time that the risk of default is reduced, the 1 percent funding fee paid at the time of the refinancing would increase revenues to the VA.

MBA believes that the amount of the refinanced loan should be based upon the fair market value of the property. As long as the value of the property supports the mortgage amount, there should be no limits on the refinancing amount.

MBA concludes that a harsh occupancy standard for refinancing will not serve the best interests of the VA program, because such a policy increases the risk of default. Because the veteran's entitlement is a limited one, that is, the veteran can only use the guaranty amount up to the Congressionally specified limit, that should serve as the primary limiting factor in allocating a veteran's entitlement. And the veteran is in the best position to choose how that election should best be made, taking into account individual financing needs.

FORECLOSURE RELIEF

There are a number of alternatives to foreclosure that can be made available to

defaulting veterans. Among those the GAO focused on in its findings were refundings and assisting veterans to sell their homes.

When the VA refunds a loan, the veteran is able to keep the property. Under this option, the VA pays the lender the outstanding loan balance and establishes a repayment plan to the VA based on the veteran's ability to pay. The VA reported to the GAO that refundings are successful in about 50 percent of the cases in which it is used, which is one for every 129 foreclosures.

The GAO pointed out a VA program which provides financial assistance, in exchange for a promissory note, to the veteran to enable him or her to sell the property. This is provided when, even though the veteran can obtain the fair market value of the property, the sale proceeds are not sufficient to pay both the loan balance and the selling expenses. Veterans generally are not informed about this option.

MBA urges further study of the use of these options and their cost-effectiveness.

REDUCTION OF DEFAULT RATES

MBA believes that lenders who are approved for the automatic guaranty program should be underwriting and approving all VA loans. Loans that have been rejected by these lenders should not be submitted to the VA for approval. Those loans that are approved by the VA after having been rejected by the lender have a very high default rate. In any event, lenders and VA underwriters should adhere strictly to VA underwriting standards and disapprove loans that do not meet those standards.

VA PROPERTY ACQUISITION AND DISPOSITION

The VA should seek ways to minimize property acquisition costs and improve its marketing and disposition of foreclosed property.

ACQUISITION

MBA has consistently urged the VA to utilize more fully deeds in lieu of foreclosure. The veteran voluntarily conveys the property to the VA, which then avoids the high costs associated with the foreclosure process. In exchange, the veteran is released from liability to repay the government any claim the VA pays as a result of the loan termination.

The VA has made very limited use of deeds in lieu of foreclosure, acquiring only 7 percent of its properties in FY 1985 and 6 percent in FY 1986 in this way. According to the GAO findings, the VA Inspector General in September 1986 estimated that the VA could have used deeds in lieu in about 20 percent of property acquisitions during FY 1985 and saved the VA \$16 million, or about \$5,300 per property acquired.

The VA generally does not accept a deed in lieu if it believes it can collect the amount of the claim from the veteran. The VA should determine whether it is feasible to have the veteran sign a promissory note to repay the amount of the claim in order to make greater use of deeds in lieu of foreclosure.

MARKETING AND DISPOSITION

There are several widely espoused recommendations to improve VA's performance in

selling VA-acquired properties. These recommendations include listing properties in a more timely manner in order to eliminate any lag between the time the properties become available and the time buyers become aware that these properties are on the market. In addition, there should be more outreach efforts to real estate agents to maximize exposure for VA-acquired properties. Improved communications between real estate agents and VA staff could lead to greater real estate agent knowledge about the properties. Property descriptions, photographs, and details such as those used for private listings would greatly accelerate real estate agent showings of the property because of the time saved by the agent in not having to check out the property from merely an address listing. Finally, there should be further examination of the auction method for selling properties.

ADJUSTABLE RATE MORTGAGES

MBA urges that the VA be authorized to include ARMs in the home loan guaranty program. ARMs have become accepted by borrowers in the conventional mortgage market, and FHA has expanded its insurance program to include ARMs. The conventional and FHA markets have demonstrated that ARMs are beneficial because they permit borrowers and lenders to tailor transactions to the needs of borrowers. Borrowers who do not want to pay for the predictability of a fixed rate mortgage can agree to the lower interest rates that lenders can offer when the borrower bears some of the risk of inflation and other economic conditions that generally cause rates to rise.

MBA believes that VA ARMs should be authorized in a manner that would allow the Administrator to conform VA ARM interest rate adjustments to the FHA-ARM program. Currently, FHA is authorized to insure loans with adjustment caps of 1 percent annually

and 5 percent over the life of the loan. Because FHA and VA mortgages can be placed in the same pool when they meet GNMA's pooling requirements, standardization of both VA and FHA-ARMs would facilitate greater volume and liquidity in the secondary market.

Whatever may have been the case previously, ARMs are no longer an untested and unknown quantity. Approximately 53 percent of new conventional mortgages originated in the last quarter of 1983 were ARMs. The percentage continued to rise to 62 percent of loans closed in 1984 and dropped back to 50 percent in 1985. (Federal Home Loan Bank Board, "Conventional Home Mortgage Rates," February 1986.) Although substantially lower interest rates restored borrower ability to select fixed rate mortgages in 1985 and 1986, ARMs continue to be a significant borrower option in the conventional and FHA markets. The recent volatility of interest rates has caused increased demand for ARMs, which once again demonstrates borrower preference for these mortgages when interest rates rise. In 1986, 30 percent of loans closed were ARMs. The percentage of FHA loans that were ARMs increased dramatically from 1985 (the first year FHA-ARMs were permitted) to 1986. (See Exhibit 5.) Veteran borrowers should also enjoy the option.

MBA appreciates the opportunity to testify before this Subcommittee and would be happy to answer or provide additional information, as necessary, for inclusion in the record.

EXHIBIT 1

VA HOME LOAN GUARANTY PROGRAM ACTIVITY
PRIMARY HOME LOANS CLOSEDTotal ^{1/}

	Number	Loan Amount (\$Mil)	Average Loan Amount	Average Purchase Price	Avg. Loan to Value Ratio
1977	371,610	13,260	\$35,683	\$36,982	96.5
1978	352,797	13,959	\$39,567	\$41,079	96.3
1979	345,708	15,991	\$46,256	\$48,555	95.3
1980	255,631	13,257	\$51,860	\$55,092	94.1
1981	136,027	7,543	\$55,452	\$58,833	94.3
1982	87,027	5,053	\$58,062	\$63,112	92.0
1983	227,155	14,092	\$62,037	\$66,723	93.0
1984	181,771	11,633	\$63,998	\$67,584	94.7
1985	172,773	11,579	\$67,016	\$70,243	95.4
1986	207,651	14,510	\$69,875	\$72,905	95.8

^{1/}Loans for refinancing not included.

100% Loans

	Number	Percent of Total Number	Loan Amount (\$Mil)	Average Loan Amount
1977	259,509	69.83	8,817	\$33,975
1978	244,458	69.29	9,091	\$37,188
1979	234,810	67.92	10,260	\$43,695
1980	169,839	66.44	8,195	\$48,254
1981	89,758	65.99	4,569	\$50,901
1982	50,285	57.78	2,629	\$52,284
1983	137,315	60.45	7,868	\$57,299
1984	118,218	65.04	7,042	\$59,564
1985	123,101	71.25	7,846	\$63,736
1986	153,232	73.79	10,129	\$66,104

Source: Program Management Service, Loan Guaranty Department of the Veterans Administration.

Prepared by Mortgage Bankers Association of America, Economics Department, June 1987.

EXHIBIT 2

ADJUSTMENT OF MAXIMUM GUARANTY

Maximum VA Guaranty		Median Sales Prices			All Homes 2/		
	Amount	Existing Homes		New Homes 1/		Price	% Change From 1974
		Price	% Change From 1974	Price	% Change From 1974		
974	\$17,500	\$32,000	NA	\$35,900	NA	\$32,725	NA
975	\$17,500	\$35,300	10.3	\$39,300	5	\$36,026	10.1
976	\$17,500	\$38,100	19.1	\$44,200	2.1	\$39,162	19.7
977	\$17,500	\$42,900	34.1	\$48,800	35.9	\$43,981	34.4
978	\$25,000	\$48,700	52.2	\$55,700	55.2	\$49,891	52.5
979	\$25,000	\$55,700	74.1	\$62,900	75.2	\$56,825	73.6
980	\$27,500	\$62,200	94.4	\$64,600	79.9	\$62,572	91.2
981	\$27,500	\$66,400	107.5	\$68,900	91.9	\$66,782	104.1
982	\$27,500	\$67,800	111.9	\$69,300	93.0	\$68,057	108.0
983	\$27,500	\$70,300	119.7	\$75,300	109.7	\$71,232	117.7
984	\$27,500	\$72,400	126.3	\$79,900	122.6	\$73,767	125.4
985	\$27,500	\$75,500	135.9	\$84,300	134.8	\$77,052	135.5
986	\$27,500	\$80,300	150.9	\$92,000	156.3	\$82,318	151.5

Maximum VA Guaranty		Price Adjusted VA Guaranty			Price Adjusted Guaranty to Actual Guaranty		
	Amount	For Existing Homes	For New 1/ Homes	For All 2/ Homes	For Existing Homes	For New 1/ Homes	For All 2/ Homes
974	\$17,500	\$17,500	\$17,500	\$17,500	1.00	1.00	1.00
975	\$17,500	\$19,305	\$19,157	\$19,265	1.10	1.09	1.10
976	\$17,500	\$20,836	\$21,546	\$20,942	1.19	1.23	1.20
977	\$17,500	\$23,461	\$23,788	\$23,519	1.34	1.36	1.34
978	\$25,000	\$26,633	\$27,152	\$26,679	1.07	1.09	1.07
979	\$25,000	\$30,461	\$30,662	\$30,388	1.22	1.23	1.22
980	\$27,500	\$34,016	\$31,480	\$33,461	1.24	1.15	1.22
981	\$27,500	\$36,313	\$33,586	\$35,712	1.32	1.22	1.30
982	\$27,500	\$37,078	\$33,781	\$36,394	1.35	1.23	1.32
983	\$27,500	\$38,445	\$36,706	\$38,092	1.40	1.33	1.39
984	\$27,500	\$39,594	\$38,948	\$39,447	1.44	1.42	1.43
985	\$27,500	\$41,289	\$41,093	\$41,204	1.50	1.49	1.50
986	\$27,500	\$44,914	\$44,847	\$44,020	1.60	1.63	1.60

sources: Bureau of the Census; National Association of Realtors.

1/ New home sales prices and activity for 1986 estimated based on data through November 1986.

2/ Weighted average (by sales activity) of median sales prices of new and existing single-family homes sold.

prepared by the Mortgage Bankers Association of America, Economics Department, June 1987.

EXHIBIT 3

TOP 10 STATES BY NUMBER OF NO-BIDS

State	FY 1985			FY 1986		
	No. of Foreclosures	No. of No-Bids	Pct.	No. of Foreclosures	No. of No-Bids	Pct.
1. Texas	4,136	258	6	7,338	1,206	16
2. California	2,775	490	18	2,617	563	22
3. Ohio	2,156	366	17	1,977	378	19
4. Colorado	1,459	146	10	1,032	363	19
5. Illinois	885	86	10	1,080	339	16
6. Oklahoma	734	95	13	1,426	308	22
7. Indiana	854	128	15	881	182	21
8. Pennsylvania	876	184	21	825	176	21
9. Iowa	415	91	22	417	168	40
10. Washington	1,182	130	11	1,283	165	13

Source: Veterans Administration

Prepared by Mortgage Bankers Association of America, June 1987.

EXHIBIT 4
VA NO-BIDS AND FORECLOSED LOANS

Fiscal Year Ending	Loans Foreclosed	Number of No-Bids	Number of No-Bids As Percentage of Total Foreclosed
1981	12,490	358	2.87
1982	15,427	238	1.54
1983	21,176	689	3.25
1984	23,377	1,496	6.40
1985	27,276	3,055	11.20
1986	34,642	5,236	15.00

Source: Veterans Administration
Prepared by the Mortgage Bankers Association of America, June 1987

EXHIBIT 5

ARMs AS A PROPORTION OF LOANS CLOSED

	<u>Conventional</u> ^{1/}	<u>FHA</u> ^{2/}
1986	29.9%	0.8%
1985	50.5%	0.1%
1984	62.0%	--
1983	40.3%	--
1982	40.5%	--

^{1/} Source: Federal Home Loan Bank Board

^{2/} Source: Federal Housing Administration — Fiscal Year Basis

Prepared by the Mortgage Bankers Association of America, Economics Department, June 1987.

STATEMENT OF
THE NATIONAL ASSOCIATION OF HOME BUILDERS
before the
COMMITTEE ON VETERANS AFFAIRS
U.S. SENATE
on
OVERSIGHT OF THE VA HOME LOAN GUARANTY PROGRAM
June 17, 1987

Mr. Chairman and Members of the Subcommittee:

My name is John Koelemij and I am a Past President of the 147,000 member National Association of Home Builders. I am a builder from Tallahassee, Florida and have been active in the VA home loan program since 1954. NAHB is a trade association of the nation's homebuilding industry with almost 20% of our builder members involved in building housing financed under the Veterans Administration (VA) housing programs. According to NAHB's "Profile of the New Home Buyer" the VA Home Loan Guaranty program was used by 14.5% of new single family home buyers in 1986. (Attachment A).

I am pleased to present our views on the VA Home Loan Guaranty program. First, I would like to welcome you as a member of the Committee and am pleased that Florida is so ably represented. I look forward to your continued participation in the housing area.

We are pleased to comment on legislation affecting the VA Home Loan Guaranty program including S.9, H.Con.Res. 79 and

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S.920. We support the loan guaranty provisions in S.9 which include an increase in the loan guaranty maximum from \$27,500 to \$36,000 and exemption from the sequestration provisions of the Deficit Reduction Act. We also hope that the committee will provide for an adjustable rate mortgage (ARM) which was included in S.9 in the 99th Congress.

We supported passage of H.Con.Res. 79 expressing the sense of Congress that the one percent fee imposed on VA guaranteed home loans should not be increased. We hope that the Senate will act swiftly on this legislation.

Legislation introduced at the request of the Administration, on the VA Home Loan Guaranty program, S.920, calls for an increase in the VA fee to 2.5 percent and would make the one percent fee increase permanent. It also calls for the elimination of the VA administered interest rate. We strongly oppose these provisions.

We favor the direct endorsement of appraisal legislation in S.920 and hope that the Committee will give serious consideration to this provision.

VA HOME LOAN GUARANTY PROGRAM

I would like to take this opportunity to comment on the Veterans Administration Home Loan Guaranty program in general. VA housing programs have served veterans and their families for over four decades. They have given veterans the chance to achieve homeownership with all of the opportunities that come from putting down roots and establishing community ties. We

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commend the VA for its service to veterans as they guaranteed their 12 millionth loan. Our Vice President and Secretary represented NAHB at the ceremonial closing of this loan in Phoenix, Arizona in March. More than \$275 billion in loans have been made since 1944 to help veterans obtain homeownership.

Congress spoke very clearly in 1944 when authorizing the GI Home Loan program as an entitlement program to enable veterans to obtain mortgage credit. Over time, Congress has acted wisely to increase the entitlement, expand the category of eligible veterans, and extend the period during which the entitlement could be utilized. There has been a bipartisan commitment over the years to help veterans purchase their own homes.

The VA has done an excellent job in carrying out the housing entitlement programs afforded veterans. NAHB has consistently supported the VA Home Loan Guaranty program and believes the VA to be one of the best federal agencies in terms of service to the consumer and the home builder.

SERVICE - DISABLED VETERANS' BENEFITS ACT OF 1987

S.9

Mr. Chairman, I appreciate this opportunity to comment on the home loan guaranty provisions of S.9. We strongly urge that the loan guaranty maximum be increased since home prices have substantially increased and urge the Committee to exempt the loan ceiling from sequestration provisions of the deficit reduction act as it is very important to maintain an uninterrupted flow of funds to the program. NAHB policy supports these provisions

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(Attachment B). In addition, we support an adjustable rate mortgage as an additional financing mechanism for veteran home buyers.

Loan Guaranty Maximum

Attachment C to my testimony shows the need to increase the loan guaranty maximum. Since 1976, the sales price of new single family homes has increased at a much greater rate than the maximum loan guaranty. The average sales price of a new home went from \$48,000 in 1976 to \$111,800 in 1986, a 133% increase. The loan guaranty maximum increased only 57% in the same period of time -- from \$17,500 to \$27,500. Comparing the 1986 new home sales price of \$111,800 to the 1980 figure of \$76,000, the last time the loan guaranty was raised, new home prices have increased by 46%.

Given the substantial increases in the cost of housing since the last time the loan guaranty maximum was raised, we believe that an increase in the loan guaranty amount from \$27,500 to \$36,000 as recommended in S.9 is well justified. The rise in home prices of 46% would actually support an increase in the loan guaranty to over \$40,000.

You may want to consider the establishment of a mechanism that would automatically trigger an increase in the loan guaranty maximum as home prices rise. A formula to provide differentials for high cost housing areas, similar to FHA, might also be considered. The present system is especially unfair to areas or states with high housing costs including California, Hawaii, and

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Alaska. In a relatively low cost area a majority of the market may be eligible, but in a high cost area, because of the loan guaranty maximum limit, a smaller portion of the market will be served.

Loan Ceiling Exemption

For the first time in the history of the program, a ceiling was placed on the overall volume of loans that could be made by the Veterans Administration under the sequestration provisions of the Deficit Reduction Act. In 1986, Congress had to increase the loan guaranty ceiling twice because of this legislation, causing severe disruptions in the program. This came at a time when interest rates had substantially declined, allowing thousands of veterans to purchase homes for the first time. Refinancings were also at an all time high.

The loan guaranty program is an entitlement program and should not be impacted by the Gramm/Rudman/Hollings deficit reduction provisions. In addition, VA home loan guarantees require no direct federal outlays unless there is an actual default of the loan. A reduction in the number of loans will not result in deficit savings.

Adjustable Rate Mortgages/Rising Interest Rates

Provisions for an adjustable rate mortgage would be helpful to better serve the veteran homebuyer particularly in a period of rising interest rates which we are currently experiencing. Higher and more volatile interest rates cut into housing activity, although adjustable rate mortgages are

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providing a safety valve in this area. NAHB policy supports an adjustable rate mortgage (ARM) for the VA which allows the lender to make periodic adjustments in the effective rate of interest on a VA home loan based on a national rate index. Our policy calls for an ARM identical to FHA's adjustable rate loan which allows interest rates to escalate no more than 1% per year with a cap of 5% over the life of the loan. (Attachment D) This has proven to be a very responsible, pro-consumer mortgage instrument.

Adjustable rate mortgages with caps on interest rates have proven to be a valuable tool in the market place and would provide an important option to the veteran homebuying consumer. Interest rates for an adjustable rate mortgage are typically 1% to 2% lower than a fixed rate loan. This results in a savings of as much as \$100 in monthly mortgage payments on a \$70,000 loan.

The VA interest rate has increased from 8.5 percent to 10 percent since the beginning of the year. During a higher interest rate environment, ARMs are an even more attractive option because they carry lower initial rates. As rates fall, ARMs allow the veteran borrower to enjoy rate decreases without the expense of refinancing.

Concern has been shown that veteran homebuyers are at the lower end of the affordability market and could be impacted by a rising ARM. With the new credit underwriting guidelines implemented by the VA Administration last year, however, more stringent qualifying guidelines are required on VA loans.

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Additionally, if the ARM is patterned after the FHA ARM there would be no negative amortization. The cap under FHA is on the interest rate (1% per year with a 5 year maximum over the life of the loan) rather than on the payment. This is a significant protection for the consumer. When ARMs were first introduced, there were a number of variations that allowed for negative amortization -- that is, payments did not cover all of the interest due. Unpaid interest was added to the loan balances and borrowers could end up owing more than the home was worth. This type of loan suffered a very high foreclosure rate and was quickly abandoned.

We hope that you will support an ARM for the VA homebuyer as the Veterans Administration is the only market participant that does not offer such a program.

VA FEE

H.CON.RES. 79

Mr. Chairman, we support H.Con.Res. 79 which states that the one percent fee should not be increased. Congress passed similar legislation last year and we hope that the Senate will adopt this proposal again this year. As you are aware, the Administration has advocated a fee increase on the veterans home loan program for the last three years. In FY'86 the proposal was to increase the fee from one percent to five percent. In FY'87 the administration proposed an increase to 3.8 percent and for FY'88 to 2.5 percent.

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This fee has a detrimental effect on the ability of veterans to obtain home loans and should not be increased. The fee increase would cost over \$1,000 in upfront closing costs or \$3,300 if financed over the life of the loan.

The current 1% funding fee, which was extended by Congress in 1984 for three years, will expire on September 30, 1987. Even with the existing 1% loan fee, the Loan Guaranty Revolving Fund will need to be supplemented by an appropriation by Congress in FY'88. While we support a congressional appropriation to maintain solvency in the program, we recognize the critical need to maintain current revenue. Therefore, we recommend that the Committee retain the current 1% fee for another year to help sustain the program. We urge Congress, however, to give serious consideration to the issue of whether the program is truly an entitlement for which user fees may be inappropriate.

VETERANS' HOUSING AMENDMENTS ACT OF 1987

S.920

The Administration's legislative proposal (S.920) on the VA Home Loan Guaranty program includes the fee increase and a negotiated interest rate between the buyer and the lender. We have already noted our opposition to the fee increase and would also oppose a negotiated interest rate between the buyer and the lender. This legislation also calls for direct endorsement of VA appraisals, which we support.

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Negotiated Interest Rate

Recent NAHB policy supports the continued use of the administratively established VA rate. (Attachment B) NAHB has always endorsed the VA's ability to set the program interest rate in order to protect the interests of the veteran and the guaranty fund.

Furthermore, because of its sensitivity to market conditions the VA prevailing rate has become an important national benchmark for mortgage interest rates. If the VA's authority to set a maximum interest rate ceiling were eliminated, the credit markets would lose this stable measure of the cost of mortgage credit, a feature which becomes even more important in our current volatile interest rate environment.

Direct Endorsement Of VA Appraisals

We support the provision in S.920 which gives authority under the VA Home Loan Guaranty program to the lender to determine the reasonable value of homes bought by veterans. This would make the VA automatic lender program similar to the Department of Housing and Urban Development's direct endorsement program by allowing appraisals approved by VA certified appraisers to be sent directly to the lender rather than the VA Administrator. Approved lenders would then determine the market value of the home, close the loan on the basis of their own independent review and then directly notify the veteran.

Direct endorsement of appraisals will decrease processing time in approving loans and allow the VA to operate more

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effectively under staffing constraints. It would also bring the program in conformity with HUD's direct endorsement program which has worked successfully since its inception in 1983.

Additionally, market conditions have delayed appraisals and have caused many veterans' contracts to expire. This has led to increases in the cost of the loan. Most appraisals are left unchanged by the VA so there is no reason not to send them directly to the lender for certification.

PROGRAM CONCERNS

Mr. Chairman, the Committee also asked us to comment on other program issues and proposals of interest to veterans.

Federal Credit Reform

The National Association of Home Builders strongly opposes credit reform measures which attempt to restrict federal mortgage credit activities of the Veterans Administration and other government housing programs (S.745 and H.R.1754). This credit reform legislation, supported by the Administration, changes the way federal credit programs are treated in the budget and would require federal agencies to seek direct appropriations from Congress. Since the VA home loan program is a guaranty program this action is yet another attempt to restrict federal housing credit and ignores the entitlement nature and major benefits of the program.

Loan Assets Sales

We are concerned with the Administration's policy decision to sell the loan assets of the VA and other federal agencies.

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Our concern has to do with the overall impact of the proposal upon the long term economic health of the various programs. In deciding which assets to sell, careful consideration must be given to assessing the true value of the income stream of the asset being sold. The Administration's FY'88 budget proposes to sell \$900 million of the Veterans Administration's \$1.1 billion loan portfolio over the next three years without recourse, at a 10% discount. It is estimated that this will result in a loss of \$100 million in interest income. The loss of this income stream from the properties being sold must be balanced against projected short term budgetary gains in determining actual "value" of the asset sale and long term implications and loss to the program.

Transferred Veterans Refinancing/Assumed Loans

We recommend that military personnel who have been transferred be allowed to refinance their loans before sale. Current law states that veterans must be owner occupants to refinance their homes -- a provision which excludes transferred veterans attempting to sell their homes. A new buyer does not want to assume a 12% to 14% interest rate loan which was prevalent under the program in the early 1980's, when he can obtain a much lower interest rate elsewhere.

Allowing a veteran to refinance the loan at the current 10% interest rate will be beneficial both to the veteran and the homebuyer. It will allow veterans to sell homes which have been sitting on the market, thereby preventing default and

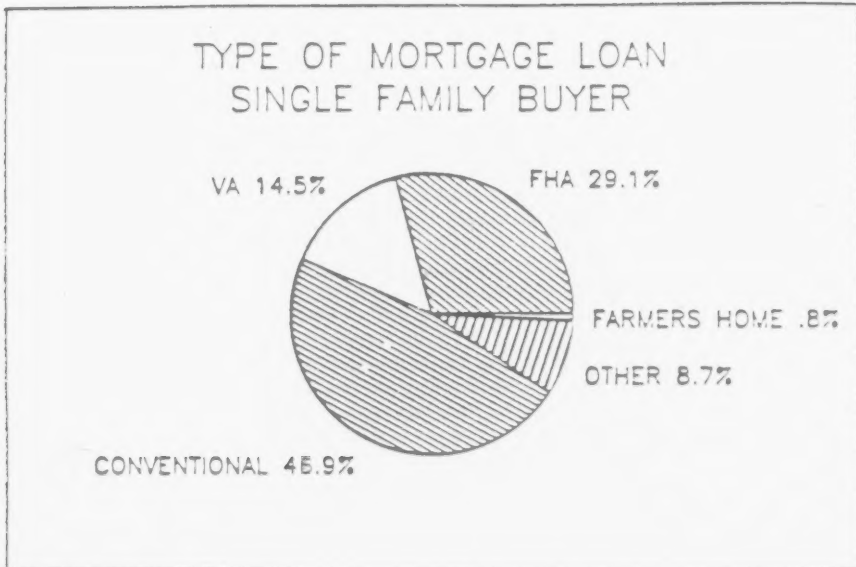
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foreclosure. The new buyer will save both in the amount of upfront closing costs and in shorter processing time.

CONCLUSION

In closing, I would like to emphasize our support for an increase in the loan guaranty maximum, exemption from mortgage ceilings, provision for an adjustable rate mortgage and direct endorsement of VA appraisals, so that veterans will be better assisted in obtaining home loans. We oppose the increase in the VA user fee and the establishment of a negotiated interest rate for veteran homebuyers. It is essential that the VA remain true to its basic responsibility of providing credit assistance to veterans for the purchase of housing and to make maximum use of the loan guaranty program. The loan guaranty entitlement should not be denied our veterans and service personnel who have so ably served our country.

I would be pleased to respond to any questions you might have.



Source: National Association of Home Builders, "1986 Profile of the New Home Buyer: Single Family Homes, Condominiums."

ATTACHMENT E

Date: January 15, 1987

NAHB Resolution

VA Loan Guaranty and Interest Rate Limits

WHEREAS, the federal government provides a guaranty to lenders, which, in effect allows veterans to obtain low or no downpayment home loans; and

WHEREAS, the VA home loan guaranty maximum of \$27,800 has not been increased by Congress since 1980, while the median sales price of a new home has increased by approximately 40 percent during those six years; and

WHEREAS, the VA loan guaranty needs to be raised to increase the availability of no downpayment VA loans in high cost areas; and

WHEREAS, the Gramm-Rudman-Hollings sequestration provisions have been interpreted to apply to the VA loan guaranty program; and

WHEREAS, the VA loan guaranty program is an entitlement program which should not be impacted by Gramm-Rudman-Hollings sequestration provisions; and

WHEREAS, NAHB has always supported the VA program as an entitlement for veterans, and has endorsed the administered rate process which helps ensure that veterans obtain a fair interest rate; and

WHEREAS, legislation has been introduced to both increase the VA loan guaranty maximum and exempt the VA program from sequestration under Gramm-Rudman-Hollings,

NOW, THEREFORE, BE IT RESOLVED that the National Association of Home Builders urge Congress to approve proposed legislation that would increase the ceiling on the VA loan guaranty and to exempt the VA program from the Gramm-Rudman-Hollings sequestration provision,

BE IT FURTHER RESOLVED that NAHB urge Congress to continue VA's authority to establish the maximum allowable interest rate under the loan guaranty.

BOARD OF DIRECTORS ACTION: Approved

ATTACHMENT C

AVERAGE SALES PRICE OF NEW HOMES SOLD
LOAN GUARANTY MAXIMUM COMPARED TO 1976

<u>New Single Family Homes</u>			<u>VA Loans</u>	
	<u>Average Sales</u> <u>Price/New Homes</u>	<u>% Increase</u> <u>Over 1976</u>	<u>Loan Guaranty</u> <u>Maximum</u>	<u>% Increase</u> <u>Over 1976</u>
1976	\$48,000	N/A	\$17,500	0
1977	\$54,200	12.9%	\$17,500	0
1978	\$62,700	30.6%	\$25,000	42.9%
1979	\$71,900	49.8%	\$25,000	42.9%
1980	\$76,600	59.6%	\$27,500	57.1%
1981	\$83,000	72.9%	\$27,500	57.1%
1982	\$83,900	74.8%	\$27,500	57.1%
1983	\$89,800	87.1%	\$27,500	57.1%
1984	\$97,600	103.3%	\$27,500	57.1%
1985	\$100,800	110.0%	\$27,500	57.1%
1986	\$111,800	132.9%	\$27,500	57.1%

N/A = Not Applicable

Source: U.S. Department of Commerce, Bureau of the Census,
 Series C-25; Compiled by NAHB.

ATTACHMENT D

Date: January 15, 1987

NAHB Resolution

VA Adjustable-Rate Mortgage

WHEREAS, adjustable-rate mortgages typically offer lower initial rates than those available with fixed-rate loans; and

WHEREAS, this type of financing is particularly important during periods of rising interest rates in order to maintain the availability of affordable mortgage credit; and

WHEREAS, the Veteran's Administration is the only major market participant that does not offer an ARM program,

NOW, THEREFORE, BE IT RESOLVED that the National Association of Home Builders work with Congress to establish a VA-guaranteed, adjustable-rate mortgage identical to FHA's adjustable-rate loan.

BOARD OF DIRECTORS ACTION: Approved

STATEMENT OF THE
NATIONAL ASSOCIATION OF REALTORS®
BEFORE THE
SENATE VETERANS' AFFAIRS COMMITTEE
BY
JENNIE L. STABILE
VICE-CHAIR, REAL ESTATE FINANCE COMMITTEE
JUNE 17, 1987

INTRODUCTION

Mr. Chairman, my name is Jennie L. Stabile. I am a REALTOR® from Woodland Hills, California and the 1987 Vice-Chair, of the Real Estate Finance Committee for the NATIONAL ASSOCIATION OF REALTORS®. On behalf of the more than 730,000 members of our ASSOCIATION, I want to thank you and the members of your Committee for the opportunity to present our views on veterans' housing issues, and specifically, those matters affecting the VA Home Loan Guaranty Program.

Mr. Chairman, we are delighted to see that the VA Home Loan Guaranty Program recently reached the 12 million loan mark, evidence of the program's success in providing homeownership benefits to veterans who have served our country for the past 43 years.

The NATIONAL ASSOCIATION OF REALTORS® continues to believe in the viability of the Home Loan Guaranty Program, and pledges its support to working with this Committee to insure that the Program continues to serve the veteran homebuying public. As we previously testified before your Committee in February, we continue to oppose efforts which would weaken or privatize government mortgage programs, including the VA Home Loan Guaranty Program.

We continue to believe that it is imperative that Congress develop a formal NATIONAL HOUSING POLICY in order to provide a reasoned framework in which to address this nation's needs. As you may know, our ASSOCIATION, the Mortgage Bankers Association and the National Association of Home Builders recently crafted our own statement entitled "Toward a National Housing Policy."

In response to your request, we are pleased to offer our comments and views on the following aspects of and proposals governing the VA Home Loan Guaranty Program.

S.9., "THE SERVICE-DISABLED VETERANS" BENEFITS IMPROVEMENT ACT OF 1987

• VA Home Loan Guaranty Maximum: Mr. Chairman, the NATIONAL ASSOCIATION OF REALTORS® strongly supports Section 6 of your legislation, S.9., which proposes to increase the maximum loan guaranty from its present \$27,500 to \$36,000. The loan guaranty, also known as the veterans' entitlement, is the amount available to veterans on home loans through the VA Home Loan Guaranty Program. This entitlement is not a maximum loan limit, but rather a maximum loan guaranty. Traditionally, lenders have been assured protection through this guaranty mechanism; thus, allowing for the elimination of a downpayment requirement when a veteran purchases a home.

The lending industry has interpreted the guaranty limit to mean that the maximum loan made without a downpayment may be roughly four times the guaranty maximum. In this way, lenders are making 75 percent loan-to-value (LTV) ratio loans. If a veteran wishes to secure a VA-guaranteed loan in excess of the entitlement, most mortgage lenders require the veteran to put down 25 percent of the excess, thereby keeping the LTV at 75 percent.

Since October 1, 1980, the guaranty maximum has been \$27,500 or 60 percent of the loan, whichever is less. A veteran with a full entitlement of \$27,500 or 60 percent and who meets the VA's underwriting requirements can usually secure a maximum loan of four times \$27,500 or \$110,000 with no money down.

However, as we are all well aware, housing prices have risen since 1980. Consequently, the veteran homebuyer's purchasing power has decreased each year and the loan guaranty maximum has not been raised to reflect this appreciation of home prices.

According to the NATIONAL ASSOCIATION OF REALTORS® Existing Home Sales Report, in October, 1980 the median sales price of an existing single-family home was \$62,700. By December, 1986 the median sales price had risen to \$80,600 -- an increase of 29 percent. The ASSOCIATION'S most recent Outlook for the Economy and Real Estate forecasts a 3.8 percent rate of home price appreciation during calendar year 1987. At this rate of appreciation, the median sales price of an existing single-family home in December, 1987 is estimated to be \$83,400.

It is estimated that from October 1980, the last time the loan guaranty maximum was increased, to the end of calendar year 1987 the change in the median price of existing single-family homes represents a substantial increase of 33 percent. This analysis supports an increase of the loan guaranty from \$27,500 to \$36,600.

Clearly, the VA homebuyer's purchasing power has already decreased 29 percent since October, 1980 and is estimated to decrease another 3.8 percent by the end of 1987, if the loan guaranty maximum is not raised.

• Exempt VA Home Loan Guaranty Program from Sequestration: Section 8 of S.9 removes the VA Home Loan Guaranty Program from the purview of the Gramm-Rudman-Hollings deficit reduction law, and thus, exempts the program from sequestration.

The ASSOCIATION believes that this particular program should be granted a permanent exemption from the G-R-H's threat of sequestration for the following reasons: First, a fee is charged when a VA guaranty is issued to a veteran. This fee is channeled into the VA Loan Guaranty Revolving Fund (LGRF). Consequently, a sequestration cap, which would reduce the total amount of guaranties and thus, the amount of fees collected in a given fiscal year, would actually increase the deficit.

Second, an exemption would avoid the need for Congressional action to raise a sequestration cap in a given fiscal year in order to prevent the threatened interruption in the program's service to veterans. In 1986, the Congress responded to such threats by raising the sequestration cap on this program. The ASSOCIATION has every confidence that Congress would respond in a similar manner to any future threat of interruption in the program. However, an exemption would provide needed security, stability, and predictability to the program.

Finally, the ASSOCIATION agrees that if a sequestration cap were allowed to be implemented, it would be inequitable in its application. Cutting off the issuance of commitments when a sequestration cap was reached would deny a guaranty to a veteran whose loan application was approved after the cap was reached. This could risk the veteran's purchase agreement falling through while waiting until the start of a new fiscal year and a new sequestration cap.

The NATIONAL ASSOCIATION OF REALTORS® has always considered the VA Home Loan Guaranty Program a veteran entitlement which has been secured through service to one's country. In order to provide its most optimal usage, this program should be allowed to operate in an unfettered manner, without any unnecessary interruptions.

S.920, "THE VETERANS' HOUSING AMENDMENTS ACT OF 1987"

- Deregulate VA Administered Interest Rate: Section 2 of S.920 repeals the authority of the Administrator to establish the maximum rate which veterans may pay on VA-guaranteed home loans. This statutory change would allow veterans, lenders, and sellers to negotiate the interest rate and points on VA-guaranteed loans.

As you know, in 1983, the FHA administered-rate was deregulated to allow for a rate as agreed upon by the borrower and the lender. The NATIONAL ASSOCIATION OF REALTORS® supported that modification, and we similarly support legislation which would substitute the market forces of supply and demand, for the artificial restriction on interest rates on VA-guaranteed loans.

Mr. Chairman, the rapid increase in mortgage rates which occurred in March and April of this year is a clear example of the need to allow competitive forces to determine the interest rate on VA loans.

Although VA attempts to establish a rate which reflects the current market, often-times the VA rate does not keep pace with market forces, particularly in situations where mortgage rates rise rapidly or where the market is subject to volatility.

Our members report that in March and April when the Mortgage Market reacted to changing economic forces, points on VA-guaranteed loans escalated to as high as 9.5 in some areas.

Since the veteran is not permitted to pay more than one point, sellers are required to absorb these additional costs. As a result, sellers either increase the selling price of the property or simply do not sell to potential buyers with VA financing. In either case, veterans are adversely affected. By freeing the administered rate, the terms of the mortgage transaction can be negotiated, thus filling the needs of all the parties involved.

- Lender Review of Appraisals: Section 7 of S.920 authorizes the VA Administrator to establish an appraisal system whereby appraisal reports completed by VA-designated fee appraisers would be received and reviewed by approved lenders without VA staff involvement. Approved lenders would determine and eventually certify that an appraisal reflects market or reasonable value, not the staff of the VA. Approved lenders would then be allowed to close the loan on the basis of its review, without further VA staff involvement. The NATIONAL ASSOCIATION OF REALTORS® strongly supports adoption of this provision.

Current law provides that the amount of a loan provided by the VA Home Loan Guaranty Program may not exceed the reasonable value of the property, as determined by the VA Administrator. Current law also directs the Administrator to notify the prospective homebuying veteran of the determination of the property's value. The VA should retain its ultimate authority for determining market or reasonable value. However, the VA Home Loan Guaranty Program must be granted some flexibility in fulfilling its mission to its veterans. This is especially true during periods of increased

loan processing activity as witnessed last spring and summer. In order to better serve veterans, this proposal would allow the VA Administrator to establish a system whereby approved lenders would review appraisal reports and then, in turn, notify the veteran of the property's market or reasonable value.

Under this proposal, fee appraisers would continue to be randomly selected by the VA. Again, however, the appraisers' reports would be provided directly to approved lenders, who would, in turn, independently review the appraisals, determine market or reasonable value, and close the loans on the basis of that review. Of course, the ASSOCIATION would insist that the VA establish specific criteria which lenders would be required to meet prior to being granted authority to process loans in this manner.

This change is similar to the appraisal process which is part of HUD's FHA Direct Endorsement Program. In 1983, our ASSOCIATION was instrumental in initiating this program which the industry and HUD agrees has been very successful. Today, more than 80 percent of FHA's loan applications are processed through direct endorsement lenders.

Mr. Chairman, this provision is similar to legislation introduced last Congress by Representative Stan Parris (R-VA), which we supported because we believe that these changes will provide more timely service to the homebuying veteran. In addition, we maintain that this change will allow VA field offices to operate more effectively under its current staffing constraints.

- Vendee Sales: Section 8 of S.920 proposes increasing the minimum and maximum percentage of inventoried properties sold without vendee financing. Current law requires VA to sell at least 25 percent, but no more than 40

percent of its inventoried properties without vendee financing. The Administration's legislative proposal calls for VA to sell at least 30 percent, but no more than 60 percent without vendee financing.

We believe that the current percentage limitations have worked well over the past two years, and that VA needs the flexibility to use vendee financing to sell its inventoried properties, particularly in areas with depressed housing markets where lenders are reluctant to provide financing. We are also aware that VA has been meeting the limitations, and has, in fact, been selling approximately 30 percent of its properties without vendee financing. At this point, we can see no reason to increase the minimum and maximum percentage limitations.

VA ORIGINATION FEE - H: CON. RES. 79

H. Con. Res. 79, as passed by the House of Representatives in April, expresses the sense of Congress that the current one percent origination fee imposed on VA-guaranteed loans should not be increased.

Mr. Chairman, the NATIONAL ASSOCIATION OF REALTORS® enthusiastically supports this concurrent resolution.

As in the past, we continue to oppose an increase in the VA "user fee". Since FY1986, this Administration has recommended an increase of the current 1 percent VA "user fee". This year, the President's FY 1988 budget recommends that the 1 percent funding fee (which is scheduled to expire on September 30, 1987) be increased to 2.5 percent.

The VA Home Loan Guaranty Program was established as a veterans' benefit, an entitlement program that was secured by service to one's country. There was no Congressional intent that the program serve as an instrument to achieve any federal economic objective. Instead, since its inception, the sole objective of the program has been to assist eligible veterans to become homeowners.

The crafters of the original legislation realized that "credit" was the essential ingredient to this program. Therefore, the program was structured to provide veterans with accessible mortgage credit in an attempt to compensate for any lost opportunities veterans may have suffered in the market during the period of their military duty.

Not only does the program seek to provide favorable credit, but it attempts to qualify as many veterans as may be "eligible". To be "eligible" for the home loan guaranty benefit, the veteran must meet service and discharge requirements, must qualify under flexible income and credit standards, and must occupy the home being underwritten by the VA loan.

In fulfilling the objective of easy credit accessibility, the program has become for some a benefit to which they feel entitled and to others a mortgage lender of last resort. To increase the "user fee" would certainly impact negatively on this latter group of veterans, possibly disqualifying them from the program for one of two reasons. Either the veteran would be unable to pay the additional "user fee" upfront or, if they opted to amortize the additional fee over the life of the loan, those veteran borrowers in the marginal category would find that lenders would be reluctant to underwrite the resulting higher loan-to-value ratio loans.

The purpose of this program would be dramatically altered by a "user fee" increase, and "eligible" veterans desiring homeownership would likely be denied.

PROGRAM-WIDE ISSUES AND PROPOSALS

- Sale of Vendee Loans: The Administration has proposed sale, on a non-recourse basis, of 10 percent of vendee loans in 1987 and all vendee loans beginning in FY 1988. We question the cost effectiveness of this proposal. Because loans sold without recourse shifts the credit risk of default from the government to private investors, these assets must be sold at a discount. As such, it is expected that funds generated from these sales will be inadequate. Furthermore, the situation is further exacerbated because continued sale of vendee loans deprives the ailing Loan Guaranty Revolving Fund (LGRF) of the steady interest income historically provided by the Direct Loan Guaranty Revolving Fund (DLRF).

- VA Assumptions: It is our understanding that there has been discussion of requiring new credit underwriting on VA loans which are assumed when a veteran sells his/her home. As you may know the NATIONAL ASSOCIATION OF REALTORS® has been an active opponent of HUD's proposal to require a credit check of all assumptors within 24¹ months of origination or of a previous assumption. Easy assumability has been a feature of FHA-insured and VA-guaranteed inception of both programs. It is widely acknowledged that this feature has been instrumental in increasing the marketability of home with FHA-insured or VA-guaranteed mortgages. In today's market where most fixed

rate conventional mortgages contain "due-on-sale" clauses, the FHA and VA programs are one of the last bastions of fixed payment mortgage instruments which allow assumability.

Especially during periods of rising interest rates, the free assumability of FHA and VA mortgages has often substantially enhanced the value of a home. The buyer benefits because he or she can assume a loan below the prevailing market rate. This assumability also translates into a benefit for the seller by increasing the demand and thus, value for his/her home.

We are not aware of any data which supports the claim that a majority of VA defaults have arisen from assumptions and we can see no reason to change the VA assumability feature which has worked successfully over the past 43 years.

We are concerned that requiring new credit underwriting on VA loans which are assumed will be detrimental to both sellers and potential buyers of homes secured with VA loans.

Prospective veteran sellers may find it more difficult to sell their homes because potential buyers may be unwilling to undergo an expensive, burdensome, and time-consuming underwriting procedures. This is particularly so if potential assumptors are required to pay an additional one-half of one percent origination fee, along with any other fees which lenders may charge for processing an assumption. The NATIONAL ASSOCIATION OF REALTORS® opposes the imposition of this additional fee because we believe it is unnecessary and represents yet another tax on homebuyers.

This change in the assumability of VA mortgages could also have a long-term, negative impact on the VA-LGRF. By requiring new underwriting, it is likely that potential homebuyers who, at one time, would be willing to take over the monthly mortgage payments from a seller who was experiencing serious financial difficulty, will no longer be amenable to assuming the VA mortgage because of the additional cost and the time imposed by the new requirement. Therefore, financially-strapped homeowners with a VA-guaranteed mortgage will have few other alternatives but to default on their VA mortgage. When this occurs, VA must pay the claim and take title to the foreclosed property. VA is then responsible for both the management and disposition of the property.

The NATIONAL ASSOCIATION OF REALTORS® is concerned about veterans obtaining proper release of liability when their loan is assumed. While the current release of liability process is a relatively timely and easy one, our experience with veteran sellers (and FHA sellers, also) demonstrates that veterans are not aware of the option they have to obtain this release.

We urge the Veterans Administration to publish the availability of the release option in all relevant veteran bulletins, and that an appropriate announcement be printed on the original loan documents.

ASSISTANCE TO VETERANS IN THE VA HOME LOAN GUARANTY PROGRAM

- Financial Counseling: We understand the VA regional office personnel do provide a degree of financial counseling, on a request basis, to potential veteran homebuyers and homeowners. This service is not available at every VA regional office.

While we certainly support efforts to improve the availability of financial counseling to veterans both at the time of application and upon delinquency, these enhancements can not be accomplished in the current environment of inadequate VA staff and resources. To be effective, additional VA staff and other resources must be made available to all regional offices on a consistent basis.

- Refinancing: We are aware of various proposals to modify requirements for refinancing a VA-guaranteed loan.

(1) Mr. Chairman, we have reviewed the provisions of H.R. 1452, legislation introduced by Representative Marvin Leath (D-TX), which would change current law to allow active-duty military personnel, who are transferred, to refinance their homes through VA.

Currently, military personnel who own a home, and are subsequently transferred to new duty stations, are not permitted to refinance their home loans because they do not currently reside there, although usually their families continue to live in the home.

While we understand this restriction was originally adopted to prevent the VA program from being used for investment purposes, unfortunately the law has discriminated against deserving veterans, desiring to take advantage of a lower rate loan.

It is our view that H.R. 1452 represents a reasonable solution to this problem, and we support its adoption.

(2) Consideration is being given to limiting the percentage of property value available for refinancing VA-guaranteed loans.

We are cognizant of the concern which has been expressed about veterans refinancing their loans for the purposes of "cashing out" their equity for non-home-related uses (i.e., consumer goods, vacations, etc.) Indeed, this issue is one which has been recently debated in the broad context of homeowner equity, and the increasing trend toward use of equity for non-home-related purposes. The ASSOCIATION is currently conducting a thorough study of the broad ramifications of the home equity issue, and we will want to provide additional comments when our members complete that review.

While it is difficult to comment on a proposal without specifics (i.e., the actual percentage limit, restrictions, if any, on the use of equity, etc.), we could not support a proposal which would limit VA refinancings only for the purposes, of rate reduction.

(3) We have also been asked to comment on a proposal which would require veterans to certify their intention to occupy the home after refinancing.

This is an issue of concern which is also mirrored in the conventional market, and we recognize the concerns which have been expressed about refinancing for resale purposes.

As with the proposal limiting the percentage of property value which may be refinanced, we will want to provide additional comments on this issue after our review of the broader questions concerning homeowner equity.

PROPERTY MANAGEMENT AND DISPOSITION

Mr. Chairman, we are aware that the Administration is still considering the establishment of a pilot program to determine the effectiveness of contracting with a commercial organization for the management and disposal of a portion of VA's inventoried properties.

As we have previously testified, we do not believe that implementation of this proposed pilot program is necessary. As you may know, the ASSOCIATION has been working with VA (and FHA) for over a year to develop a cooperative effort by which REALTORS® and other real estate professionals across the country can assist these agencies to dispose of their properties.

There are three components of the program: real estate professional education, real estate community/agency relations, and disposition methods. In the majority of our six demonstration sites, the program has been successful in educating an increased number of real estate professionals as to the proper procedures required for selling a VA inventoried home. We have found that many interested real estate professionals shy away from VA's sales program simply because they are ill-informed. The program has offered an opportunity for these individuals to learn the process and become involved in selling these properties.

In all cases, our members, staff and other real estate professionals have met with cooperation, enthusiasm and interest on the part of the VA Regional Office staff. In some cases, our demonstration sites have established relationships with VA property management staff for the first time. In other areas, the program has served to improve and further existing relationships. We have found, however, that each meeting has been successful in developing a better understanding between real estate professionals and VA property management staff. Many times, we found that simply opening communication served to resolve what had been perceived to be long-standing problems between the two parties.

Providing for alternative disposition methods has met with varying degrees of success in our demonstration sites, and we are still in the process of refining the prototype standards. Our experience thus far has shown us that successful implementation of disposition methods depends significantly on the particular demonstration site. As a result, we are also continuing to "fine-tune" the criteria for site selection, and have, in fact, established two more sites which meet our updated standards.

Our Northern California area is, perhaps, one good example of how the program is working to increase real estate professional access to VA property information. The San Francisco VA Regional Office has established a "computerized bulletin board," in which real estate professionals can access information regarding VA's listings. Not only can real estate professionals call up a particular VA property listing, but they can also access the status of that property. The "bulletin board" has just become operational, but the response from the real estate community has been very positive.

The "bulletin board" concept appears to be a workable, yet cost-effective method to increasing exposure of VA's properties. Unfortunately not all VA regional offices are so fortunate to have the resources to dedicate to this endeavor. If we have learned anything in our visits to VA regional offices over the past several months, it's that the VA Home Loan Guaranty Program departments are woefully understaffed and without adequate resources. This situation becomes even worse when we examined the staff and resources available specifically to the property management section of the Program.

In fact, Mr. Chairman, our visit to the Southern California area last month is an excellent example of how the addition of comparatively very little resources could greatly aid the VA in the disposition of its inventoried

properties. For example, for as little as \$100 to \$250, the cost of a computer modem, and \$1,500, the cost of an IBM-PC, we could install a comparable "bulletin board" in the Los Angeles area, which could be accessed by the 70-plus Boards of REALTORS® and other real estate professionals in the region. Unfortunately, the VA Regional Office in Los Angeles simply does not have the dollars to fund even these minimal equipment needs.

In other areas, real estate professional advisory councils and VA staff agreed to test the viability of the "Bulletin Board" concept. However, when confronted with similar needs for a personal computer and the necessary staff time, we found that these resources were simply not available to property management areas. If this or any other program to increase sales of VA's inventoried properties is to work, VA must be provided with the proper tools to meet its goals. The limited staff available to property management and disposition is working hard to dispose of these inventoried homes, sometimes in very creative, cost-effective ways. However, they simply need additional basic resources. Oftentimes, there aren't enough funds to even keep an information "hot line" open for the public and the real estate community.

CONCLUSION

In conclusion the NATIONAL ASSOCIATION OF REALTORS® strongly supports the continued unrestricted operation of the VA Home Loan Guaranty Program, and urges you and the members of this Committee to take the lead in preserving this valuable program.

Thank you for the opportunity to present our comments. I will be happy to answer any questions.

STATEMENT OF

EMIL W. NASCHINSKI, ASSISTANT DIRECTOR
NATIONAL ECONOMIC COMMISSION

and

PAUL S. EGAN, DEPUTY DIRECTOR
NATIONAL LEGISLATIVE COMMISSION
THE AMERICAN LEGION

before the

COMMITTEE ON VETERANS AFFAIRS
UNITED STATES SENATE
WASHINGTON, D.C.

JUNE 17, 1987

Mr. Chairman and distinguished members of the Committee:

The American Legion appreciates the opportunity to share with you our views on the Veterans Administration's (VA) Loan Guaranty Service and the proposed legislation that is being considered by this Committee today. Attached to our written statement

are copies of two resolutions that were adopted by The American Legion this past September. We respectfully request that they be made a part of this hearing.

S. 9 would, among other things, amend title 38, USC by increasing grants for special adaptive housing and the amount of guaranty on VA home loans. This bill would also exempt the VA Loan Guaranty Service, as well as other veterans benefits programs, from sequestration.

Section 3 would amend section 802 of title 38 by increasing the maximum amount that a disabled veteran can obtain for the construction of a specially adaptive housing unit, or the renovation of an existing home which is not adapted to requirements necessitated by the veteran's disability, from \$35,500 to \$40,000. Further, it would increase the amount available for the purchase and installation of special adaptive equipment in a home owned by the veteran from \$6,000 to \$6,775. The American Legion is supportive of these two measures.

Section 6 seeks to amend section 1810 of title 38 by increasing the maximum amount guaranteed by the VA on home loans from \$27,500 to \$36,000. The American Legion supports this provision for two reasons.

As you well know, Mr. Chairman, the cost of homes in cities like New York, Los Angeles, San Francisco and the District of Columbia generally far exceed the national average cost of \$74,324. Since most lenders have set the maximum loan amount on VA mortgages at \$110,000 (four times the loan guaranty), it is often difficult, if not impossible, for veterans living in the aforementioned cities to purchase a suitable home.

Frequently, it is necessary for the veteran to pay in excess of the maximum loan amount in order to obtain adequate housing. In these cases, the veteran is expected to make up the difference between the selling price and the maximum loan amount in the form of a down payment. As a result, many first-time home buyers, lacking capital, cannot enter the housing market. If this provision were enacted, most lenders would no doubt raise the maximum loan amount to \$144,000, which would allow more veterans in high housing cost areas to use their VA loan entitlement. Our second reason for supporting this measure is that it would make the program more attractive to lenders. Since participation in the program is voluntary, no doubt more lenders would be willing to make VA home loans if a greater portion of their investments were protected. This, of course, would also make it easier for veterans to use their entitlement.

The final provision of this bill, section 8, seeks to exempt the VA's loan guaranty program, as well as other veterans benefits programs, from sequestration under the Gramm-Rudman-Hollings Deficit Reduction Act which was enacted late in 1985. The American Legion shares with Congress a desire for a balanced budget. However, Mr. Chairman, we do not think that it is wise or just to attempt to reach this goal at the expense of those men and women who served our country.

As you will recall, in February of 1986 the VA's Loan Guaranty Program was in a state of crisis due to an unrealistically low "cap" that had been placed on its credit authority and exacerbated by an additional Gramm-Rudman reduction. Because of an error on the part of the Office of Management and Budget and the Congressional Budget Office in calculating the VA's credit ceiling, its budget was reduced to \$11.5 billion, or \$5.3 billion less than was actually needed for fiscal year 1986.

Had this situation gone unchecked, one of two things would have happened. Either the program would have run out of loan authority in April, or the VA would have been forced to impose severe eligibility restrictions. Thanks to the quick action of Congress in raising the cap, a major disaster was averted.

Mr. Chairman, what continues to puzzle The American Legion is the rationale behind sequestering a credit ceiling which did not involve appropriation of actual funding. In this case, the only time that money would change hands would be in the event of a foreclosure. Logic alone dictates that the loan guaranty credit ceiling ought to be exempt from sequestration.

S. 920 seeks to amend chapter 37 of title 38 by allowing for a negotiated interest rate, an increase in the user's fee, direct appropriations to the Loan Guaranty Revolving Fund (LGRF), as well as other changes.

Section 2 calls for changes in sections 1803, 1810, 1811, and 1819 of title 38 which would take away the VA Administrator's power to set interest rates on VA loans. What S. 920 proposes is that the veteran be allowed to negotiate the interest rate on his or her loan with the lender. Please remember, Mr. Chairman, that the interest rate at present is established by the Administrator and is a maximum rate. Lenders are already free to charge lower interest rates if they so choose. Thus, the effect of this proposal can only be to grant license to lenders to charge higher rates. In addition, in other forms of financing, there is a direct correlation between the size of a down payment and the rate of interest. In fact, most conventional mortgages require a downpayment of at least ten percent. We thus believe that the loser would be the first-time home buying veteran -

- precisely those who need the Loan Guaranty program the most. Mr. Chairman, it is the belief of The American Legion that if this proposal were adopted, the no down payment feature of the VA home loan program would be seriously jeopardized.

As you know, Mr. Chairman, there are elements in the Administration who have long advocated getting the Federal government out of the credit market. It would appear to us that one means of attaining this goal would be to circumvent the intent of the VA's loan guaranty program and thereby make it inaccessible to veterans for whom it was designed. If down payments on VA-backed mortgages became the rule rather than the exception (currently 72.8 percent of all primary VA home loans are made with no down payment), then we believe that participation in the program would dwindle quickly. Once lack of participation became an issue, it would be very easy for the Administration to justify elimination of the program.

Section 3 seeks to amend section 1829 of title 38 to allow for an increase in the user's fee from one percent to 2.5 percent. The American Legion strongly opposes this provision. Let us be very clear that the user's fee is nothing more than a form of taxation; a tax which has been placed on an earned entitlement. In our opinion, Mr. Chairman, those entitled to use this program have already paid a dear price for their eligibility.

Another objection that we have to the user's fee is that it defeats the purpose of the program and creates a disincentive for its use. When a veteran purchases a home, he or she has the option of either paying the fee in full at the time of sale, or including it in the total loan amount and amortizing it over the life of the loan. In either case, lower

income veterans and first-time home buyers are often shut out of the housing market because they can neither pay such a fee up front, nor can they afford the increase in monthly payments that such a fee can represent.

Section 4 would amend section 1824 of title 38 to allow for direct appropriations to the LGRF. Under current law, the LGRF is replenished by revenue from four sources: transfer of appropriations from readjustment benefits; proceeds from the user's fee; collections from the operation of the program; and the transfer of funds from the Direct Loan Revolving Fund. When there are insufficient funds in the LGRF to meet the VA's guaranty obligations to loan holders, an appropriation becomes necessary. Currently, when appropriations are needed, they are made to the readjustment benefits account and are then transferred to the LGRF. Since this system seems unnecessarily complicated, The American Legion would support this part of the provision. Our main reservation is the \$75 million limit that has been proposed on transfers to the LGRF since this figure was predicated on an increase in the user's fee. Should Congress decide not to increase the user's fee, would the proposed limit be realistic?

Section 7 seeks to amend section 1831 of title 38 by transferring the responsibility for determining the reasonable value of a property from the Administrator to approved lenders. These determinations would be based, as they are now, on the reports of VA-approved fee appraisers. Since it would appear that that this system would streamline VA field operations and provide more timely service to veterans, The American Legion would support this change in the law, provided that the VA develops careful checks on the appraisal system to avoid overpricing and the later consequences thereof.

H. Con. Res. 79 reaffirms the sense of Congress that the one percent user's fee should not be increased as the Administration has proposed. While The American Legion appreciates the intent of the proposal to hold down user fee increases, we remain firmly opposed to the user fee itself. As you know, Mr. Chairman, the legislation that authorized the user's fee is due to expire on September 30 of this year. It is our sincere hope that you and the other members of this Committee will join The American Legion in opposing its continuation at any rate.

In the letter that you sent requesting our presence at today's hearing, Mr. Chairman, you asked for our response to a number of technical issues. On page two (2) of that letter, you asked what can be done to improve service to veterans.

Before responding to that question, we believe that it would be useful to look at the original intent of the program. The VA's home loan program was originally conceived as a part of the Servicemen's Readjustment Act of 1944. Its purpose was to aid in the economic and sociological readjustment of the millions of men and women who were then serving in the Armed Forces of the United States. Congress viewed this as a viable alternative to a cash bonus as it was vastly less expensive to the Government, and because it would better serve the needs of the veteran and the economy.

Supporters of this legislation felt that veterans, because of their years of service to their country, had missed an opportunity to establish a credit rating which would be the basis of borrowing to acquire a home or business loan. In essence, it was an attempt to place the veteran on an economic par with his or her nonveteran counterpart.

Mr. Chairman, our point is this: Congress did not intend for the program to make money for the Treasury, nor did it even expect the program to be self-supporting. What Congress did intend, however, was for the VA home loan program to be used to aid in the readjustment of veterans.

As we mentioned earlier in this statement, there are some factions of the Administration so adamant on getting the Federal government out of the credit market that they will stop at nothing to achieve their goal. When one looks at the Administration's loan guaranty proposals, it becomes clear, at least to The American Legion, that they are designed to discourage participation, to further emasculate the program and, finally, to eliminate it entirely.

If Congress is truly sincere about strengthening and improving this program, it will first be necessary to deal with the basics. One of the first issues that should be dealt with is staffing.

Over the years, The American Legion has monitored the Loan Guaranty Program closely, and, for the most part, has been pleased with the service provided to veterans. Unfortunately, that is no longer the case.

Consistent reductions in VA's Department of Veterans Benefits (DVB) staffing over the past years have greatly reduced the agency's ability to provide the quality and timely service to which we believe the veteran is entitled. In fact, it is our understanding that the shortage of DVB staffing is so severe in some VA Regional Offices (VAROs) that financial counseling is no longer available.

The VA has attempted to reach its reduced staff ceiling through attrition. Since most vacancies occur in the lower-grade clerical positions, senior staff are now expected to do much of the routine filing and typing. This, of course, interferes with the amount of time and attention that can be devoted to working with the veteran.

The decision by the Office of Management and Budget to allow early retirement has also created problems for the VA. In a letter to House Veterans Affairs Committee Chairman, G. V. "Sonny" Montgomery (which later appeared in a 1986 House publication concerning the effect of the Deficit Reduction Act), the Director of the Denver VARO told of losing four senior staff through early retirement. These retirees took with them a combined total of 106 years of expertise.

Another significant part of that letter read as follows:

"The overall workload of this station is increasing significantly, primarily due to the QUINTUPLING of our loan guaranty activities within the last six months, with no end in sight. An extremely serious consequence of the increasing workload and ever-decreasing staff is that our remaining employees are becoming more and more frustrated and stressed by not being able to keep up with the workload. In addition, they are becoming the objects of the public's anger for not providing timely responses and services. Should this high frustration level continue, it is entirely possible that we will experience a higher-than-normal turnover rate, which will only further compound the problems. We have already experienced losses in the loan guaranty area for higher paying jobs with less stress."

Since the inception of the Loan Guaranty program, some 45 years ago, this has been one of the most popular and successful of all veterans benefits. During that time, it has allowed more than 12 million veterans to purchase homes valued at more than \$275 billion. While assisting veterans, the program has also benefitted the Nation's economy by increasing the tax base of communities and states. At the same time, bankers, builders, realtors and investors, to name just a few, have also prospered because of the program's existence. Unlike many other federal programs, the VA Loan Guaranty Service has for the most part been well managed, and, until recent years, has remained completely self-supporting. One of the major reasons that the program eventually became insolvent had to do with the sale of its loan portfolio.

With enactment of the Budget Reconciliation Act of 1983, the VA was required to sell its portfolio of direct, or vendee, loans. This move, which was very shortsighted on the part of the Administration, proved to be highly disruptive to the LGRF. Without this portfolio, the VA was unable to borrow on its assets to meet guaranty obligations at precisely the same time that foreclosures were increasing dramatically because of economic conditions and not because of any failure within the program.

At that time, it was projected that the sale of the portfolio would generate \$968 million in income that would go to the Treasury as miscellaneous offsetting receipts. In actuality, the sale of portfolio loans in 1983 only netted the Treasury \$683.9 million. Continued sales in 1984 netted the Treasury another \$853.7 million. Even though the income was less than projected, the 1983 and 1984 sales of VA loans returned income to the Treasury amounting to \$1.5 billion. Given the size of this figure, and the interest that would have accumulated, it would appear that sufficient assets could have

been generated to cover LGRF shortfalls created by high foreclosing rates had the VA been permitted to maintain and properly manage its loan portfolio. In our opinion, further liquidation of the loan portfolio should be prohibited. Instead, it should be restored to its former profit generating status.

Another issue of concern to The American Legion is the inequity that exists concerning the veterans liability in VA loan assumptions. Under current law, if the veteran decides to sell his or her home, it is possible for the buyer to assume the veteran's original loan. If that buyer should decide to sell the home at some point in the future, the loan can again be assumed. The problem with this otherwise attractive feature is that unless the veteran secures a release from liability from the party assuming the loan, the veteran continues to be liable for the unpaid balance of the mortgage should the buyer, or some subsequent buyer, go into foreclosure.

For whatever reason, the veteran who allows the buyer to assume the loan is often unaware of his or her responsibility under the law until it is too late. Frankly, Mr. Chairman, we are mystified as to why the VA has not made more of an effort to inform veterans of their responsibility in this regard. We believe that legislation to make it mandatory for the person assuming a VA loan to also assume complete responsibility for that loan in the event of foreclosure should be introduced by this Committee. Furthermore, we believe that this legislation should also contain language which would provide relief for those veterans who have become, or who may become at some later date, indebted to the VA in this manner.

We applaud recent proposals regarding mortgage assumptions through which

mandatory credit checks must be obtained on all buyers assuming VA loans. Since this system would better protect the interest of the VA Loan Guaranty Service and the veteran whose loan is assumed, The American Legion would have no objection to enactment of this proposal.

Mr. Chairman, that concludes our statement. We will be happy to answer any questions you may have.

THE AMERICAN LEGION
68TH NATIONAL CONVENTION
CINCINNATI, OHIO
SEPTEMBER 2-4, 1986

RESOLUTION 467

SUBJECT: SUPPORT VA LOAN GUARANTY PROGRAM

WHEREAS, The VA home loan program, as a benefit available to veterans who served their country honorably, has provided nearly 12 million veterans with the opportunity to own their own homes; and

WHEREAS, Because of changing economic conditions and the very volatile nature of the real estate market, many hundreds of thousands of Vietnam era veterans have been unable to purchase their first homes; and

WHEREAS, The home loan program has operated successfully under the Veterans Administration since 1944, and has acted as a model for similar programs; and

WHEREAS, From time to time initiatives are made in the home loan program that would dilute the intent of the home loan program and make it more difficult for veterans to obtain VA-guaranteed home loans; now therefore be it

RESOLVED, By The American Legion in National Convention assembled in Cincinnati, Ohio, September 2,3,4, 1986, that The American Legion support the home loan program for veterans in the Veterans Administration, and oppose any regulations or legislation that will make it difficult for veterans to buy homes; and be it further

RESOLVED, That The American Legion oppose imposition of any user fee; and be it finally

RESOLVED, That The American Legion support legislation to exempt the VA home loan credit limits from the requirements of Gramm-Rudman-Hollings legislation.

THE AMERICAN LEGION
68TH NATIONAL CONVENTION
CINCINNATI, OHIO
SEPTEMBER 2-4, 1986

RESOLUTION 511

SUBJECT: VA LOAN ASSUMPTION

WHEREAS, The VA's home loan program, one of the most important of all veterans benefits, has provided over 11 million veterans and their families the opportunity to become home owners; and

WHEREAS, One of the attractive features of the program is that, if the veteran chooses to sell his home, his VA-backed loan may be assumed by the purchaser and by subsequent purchasers; and

WHEREAS, Under present law, unless the veteran has secured a Release from Liability from the VA at the time of the sale, and, in case of default by any purchaser who assumes the veteran's original loan, the veteran remains liable for the unpaid balance of the mortgage; and

WHEREAS, Many veterans, unaware of the need to secure such a Release from Liability, have suffered financially because of having to pay off a debt that was not of their own making; now therefore be it

RESOLVED, By The American Legion in National Convention assembled in Cincinnati, Ohio, September 2,3,4, 1986, that The American Legion seek legislation to remove the VA requirement that a veteran must secure a Release from Liability statement when a purchaser assumes a VA loan, providing that the VA shall proceed only against the individual who defaults on a VA-guaranteed loan; and be it further

RESOLVED, That such legislation shall provide that the VA shall cancel any existing claims against any veterans who had previously owned such defaulted property, including those claims being processed at the time the legislation becomes effective, and cancelling any ongoing collections from veterans because of such claims.

STATEMENT OF
STEPHEN L. EDMISTON
DEPUTY NATIONAL LEGISLATIVE DIRECTOR
DISABLED AMERICAN VETERANS
BEFORE THE
COMMITTEE ON VETERANS AFFAIRS
OF THE UNITED STATES SENATE
June 17, 1987

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

On behalf of the more than one million members of the Disabled American Veterans, may I say how very much we appreciate the invitation to appear to here today to provide our views on the VA Home Loan Guaranty Program, and the bills S. 9, S. 920 and H.Con.Res. 79, currently pending before the Committee.

At the outset, Mr. Chairman, the Disabled American Veterans wishes to commend you and the members of the Committee for this timely exercise of your oversight and legislative responsibilities regarding the VA Home Loan Guaranty Program.

S. 9

Introduced on January 6, 1987, S. 9 proposes, in addition to the various compensation, education, burial and automobile provisions, to increase the maximum home loan guaranty amount from \$27,500 to \$36,000 (Section 6) and exempt the Home Loan Guaranty Program from Gramm/Rudman/Hollings sequestration (Section 8).

Mr. Chairman, VA statistics for Fiscal Year 1986 reveal that the average loan amount for homes purchased with the VA guaranty exceeded \$70,000. In light of this fact, it appears that an upward adjustment in the maximum loan guaranty amount is appropriate. Accordingly, the DAV supports such an adjustment in the maximum loan guaranty.

As you know, Mr. Chairman, the Gramm/Rudman/Hollings sequestration order that went into effect on March 1, 1986, resulted in the reduction of benefits specifically designed for the most severely disabled categories of service-connected veterans.

In addition, the sequestration order also reduced and capped the loan ceiling for the VA Home Loan Guaranty Program. Subsequently, as a result of lowered mortgage interest rates and a stable housing market, the VA was overwhelmed with new loan applications and requests for refinancing.

This situation resulted in action by this Committee, and your counterpart in the House, to increase the loan ceiling for the VA Home Loan Guaranty Program twice in a period of three months, to insure that all eligible veterans and their dependents would not be denied the benefit of the program.

Inasmuch as Section 8 of S. 9 would insure that the VA Home Loan Guaranty Program (and the Chapter 31 and 35 programs) would be fully protected from future Gramm/Rudman/Hollings sequestration orders, the DAV strongly supports enactment of this section of the bill.

H.Con.Res. 79

H.Con.Res. 79, as passed by the House of Representatives on April 27, 1987, resolves "that it is the sense of the Congress that the Veterans Administration loan origination fee should remain at its present level of 1 percent of the amount of the loan guaranteed."

The DAV wishes to thank you, Mr. Chairman, and the members of the Committee, for your recommendation to the Senate Budget Committee earlier this year to reject the Administration's proposal to increase the user fee to 2.5%.

As you know, to increase revenues to the VA Loan Guaranty Revolving Fund, the Congress enacted legislation -- Public Law 98-369, The Deficit Reduction Act of 1984 -- that increased the user (origination) fee from .5% to 1.0%, required the fee to be deposited in the Loan Guaranty Revolving Fund and extended authority to collect the fee through September 30, 1987.

This fee, which is due to expire on September 30, 1987, was originally established as a deficit reduction measure. At that time the DAV expressed serious reservations regarding the requirement that veterans pay for the privilege of using an earned VA benefit entitlement. As you know, final passage of the legislation that created the user fee provided a specific exemption for all compensably disabled service-connected veterans and certain surviving spouses, for which the DAV is most grateful.

Mr. Chairman, as the time draws near for the Committee to consider legislation to continue the user fee, the DAV must again express its serious reservations of requiring a veteran to pay for the privilege of using an earned benefit entitlement. However, should such an extension receive serious consideration by the Committee, we strongly urge the Committee to favorably consider continuing the exemption for certain surviving spouses and service-connected disabled veterans, as well as to include those veterans who are non-compensably service-connected disabled.

Additionally, we do not favor making the user fee permanent, nor do we support increasing the fee.

S. 920

Introduced by you, Mr. Chairman, at the request of the Administration, S. 920 proposes "to amend Title 38, U.S.C., to repeal provisions relating to setting the interest rate on

guaranteed or insured housing loans to veterans and inspecting manufactured homes purchased by veterans, to increase the Veterans Administration loan fee, to authorize direct appropriations to the loan guaranty revolving fund, and for other purposes."

Section 2 of S. 920 would permit the veteran homebuyer and the lender to agree upon an interest rate for the home loan, so long as the loan bears the same interest for the life of the loan. The bill continues current policy of not authorizing adjustable rate mortgages.

Under Section 3 of the bill, (1) the current 1% user fee would be increased to 2.5%; (2) the user fee would be made permanent; and (3) vendee loan purchasers would be subject to the same user fee.

Additionally, the maximum loan guarantee would be increased by 1.5%, from \$27,500 to \$27,915, to equal the same percentage rate of increase proposed for the user fee.

Other provisions of the bill would:

- * authorize direct appropriations to the Loan Guaranty Revolving Fund;
- * delete the requirement that VA standards for manufactured home sites include requirements to encourage the development of attractive residential areas which will be free from and not substantially contribute to adverse scenic or environmental conditions;
- * repeal the requirement that VA inspect the manufacturing process of manufactured homes and conduct on-site inspections of such units purchased with VA financing;
- * repeal the requirements for a statement of local officials regarding the feasibility of public or community water and sewage as a condition to the VA guaranty of loans for the purchase of newly constructed homes;

- * establish an appraisal system whereby appraisal reports completed by VA designated fee appraisers would be received and reviewed by approved lenders without VA staff involvement; and

- * eliminate the expiration date for the claim payment and acquired properties provisions in Section 1816(c) and (d) of Title 38, U.S.C., and increase the number of VA acquired foreclosed properties which must be sold on a cash, rather than vendee loan, basis.

Generally, Mr. Chairman, the DAV is strongly opposed to the enactment of S. 920 in its present form. However, we believe the following issues are worthy of serious consideration and action by the Committee, but not necessarily in the context of S. 920:

- * collecting the 1% user fee from vendee loan purchasers;
- * increasing the maximum loan guarantee;
- * improving the VA fee appraisal system, to include automatic review by approved lenders and better control and supervision of fee appraisers; and
- * removing the expiration date for the "no-bid" formula.

Additionally, as you know, Mr. Chairman, the Administration has also proposed a number of actions, in addition to the provisions of S. 920, to:

- * sell, without recourse, 10% of vendee loans in Fiscal Year 1987 and all such loans in Fiscal Year 1988; and
- * sell \$900 million in vendee loans from its loan portfolio.

In regard to these proposals, serious questions have been raised regarding the potential long-term adverse consequences of these proposals, should they be approved.

We strongly encourage the Committee to examine these proposals carefully before any action is taken to insure that no long-term adverse damage will result in undermining the integrity of the VA Home Loan Guaranty Program.

VA Home Loan Guaranty Program

As you know, Mr. Chairman, the focus of the VA Home Loan Guaranty Program is to assist eligible veterans in obtaining mortgage credit without a down payment for the purchase of existing or manufactured homes and construction of new homes.

There is no doubt that the VA Home Loan Guaranty Program has been a good investment in America. It has helped millions of veterans and their families become homeowners -- thereby adding stability and expanding the tax base of nearly every community in our country. Since the program's inception on June 22, 1944, veterans have obtained over 12 million VA guaranteed home loans.

Veterans use of the VA Home Loan Guaranty Program -- like private sector housing programs -- is subject to and directly related to general economic conditions and, more specifically, to conditions in the financial and housing markets.

As we all know, during the early 1980's the housing and financial markets experienced a shortage of mortgage funds. This, coupled with increased home prices, as well as the highest interest rates in history and the unprecedented rates of high unemployment, adversely impacted on the VA's Home Loan Guaranty Program.

Veterans, like all Americans, were victims of these economic conditions and, as a result, there was a dramatic decline in the number of home loan guarantees approved by the VA (Fiscal Year 1982 was the lowest since 1944), accompanied by an equally heavy increase in home loan defaults and subsequently foreclosures.

Fortunately, those economic conditions have improved and mortgage funds are generally more available, interest rates are

down from their record-breaking high in Fiscal Year 1982, and home prices have remained relatively stable. Additionally, the high rates of unemployment have also been reduced significantly.

Unfortunately, however, the VA Home Loan Guaranty Program continues to experience unacceptably high rates of foreclosure. Mr. Chairman, numerous witnesses have come before this Committee and the House Subcommittee on Housing and Memorial Affairs expressing concern over the high numbers of foreclosures the VA continues to experience and relating their dismay with the slowness with which the VA responds to: (1) the plight of veterans who are in arrears or default on their VA home loan mortgage; (2) requests for appraisals; and (3) VA home loan applications in general.

These witnesses have recommended a variety of proposals, programs and suggestions to assist veterans and the VA in avoiding foreclosures, thereby reducing the overall number of foreclosures experienced by the VA and, thus, reducing the loss in federal taxpayers' dollars in the VA Home Loan Guaranty Program.

These recommendations include such things as new credit underwriting criteria on VA loans, improved appraisal practices and a variety of counseling and forbearance programs.

In addition to such recommendations, the DAV believes a number of other initiatives could also be implemented to effectively assist in dealing with the deficiencies of the program.

First, we must ask a number of questions that have a direct bearing in this regard:

1. What effort is the VA undertaking to insure that veteran homebuyers eligible for the VA loan guaranty meet reasonable credit standards prior to purchasing a home?
2. What steps has the VA taken to assist veterans who are in default and could possibly avoid foreclosure?
3. As we understand that it can take the VA and the Justice Department from six months to five years to finalize foreclosure actions, what actions are both agencies taking to improve their timeliness in completing these foreclosures?
4. Following foreclosure action, how actively does the VA pursue collecting the debt that has resulted from the foreclosure?

Mr. Chairman, we believe the answers to these questions could very well lead to improvements that could result in substantial savings for the program. This is especially true if collected debts were deposited in the Loan Guaranty Revolving Fund; foreclosure actions were completed in a timely manner; only creditworthy veterans were approved for loans; and veterans in default were to receive greater assistance from the VA.

Furthermore, we strongly believe that any and all funds secured as a result of fines, settlement agreements stemming from fraud in the VA housing program, should be deposited in the Loan Guaranty Revolving Fund.

As you know, the VA's Inspector General has conducted a number of investigations regarding fraudulent and poor appraisal practices, equity skimming, mobile home industry kickbacks, lack of a standard loan origination policy and faulty or false credit reporting.

These schemes have defrauded veterans and the Veterans Administration. We believe it is only appropriate to utilize funds collected from those who have violated the law for the purpose of augmenting the Loan Guaranty Revolving Fund which has been directly impaired as a result of these schemes.

In this regard, we would strongly urge you, Mr. Chairman, and the Committee, to take appropriate action to provide legal authority for the VA to deposit such funds in the Loan Guaranty Revolving Fund.

Additionally, the DAV believes that the following steps should also be considered in an effort to preserve the integrity of the VA Home Loan Guaranty Program:

1. Levying fines or considering debarment action against individuals or corporations when it is shown that by their negligent or fraudulent practices veterans and the VA have suffered financial loss.
2. Voiding loan guarantees when it is shown that lenders are materially at fault in qualifying non-creditworthy veterans who subsequently default on their loans.
3. Spot-checking a specific number of credit reports to insure that they have not been altered after the credit report was completed.
4. To curtail equity skimming, the VA should be granted the authority for immediate access to property in foreclosures when it is shown that the veteran has vacated the property based on a conveyance or purported conveyance, notwithstanding any state or local foreclosure law.

Mr. Chairman, these suggestions and recommendations, coupled with those of responsive forbearance programs, improved appraisal practices and new credit underwriting requirements, could very well improve the overall VA Home Loan Guaranty Program.

However, the DAV cautions the Committee with respect to these recommendations, as they are offered in an attempt to reach that delicate balance of a well-managed and financially sound loan guaranty program. It is not our intent to tread on the primary purpose of the VA Home Loan Guaranty Program -- to provide meaningful assistance to veterans in the form of favorable credit terms without a down payment for the purchase of a home.

Further, it is our firm belief that any and all VA loan program enhancements must include authorization and funding for sufficient personnel to carry out such innovations.

Without adequate numbers of personnel, most program improvements designed to assist veterans and save taxpayers' dollars are, in our view, doomed to fail.

To emphasize our point, in Fiscal Year 1980, the VA Home Loan Guaranty Division of the Department of Veterans Benefits (nationwide) was staffed with 2,349 personnel and closed 297,447 guaranteed and insured loans. During Fiscal Year 1986, 1,969 VA Home Loan Guaranty personnel closed 313,769 such loans. These workload statistics do not reflect property management and the other responsibilities loan guaranty employees also carry out on a daily basis.

It is no wonder that this Committee and our own organization receive numerous complaints regarding the timely delivery of benefits and services from the VA. As you know, Mr. Chairman, prompt response to a veteran whose VA guaranteed mortgage is in arrears or default is critical to the effort of solving the problem and avoiding foreclosure.

In conclusion, Mr. Chairman, decisions made by the Committee will directly affect the future of the VA's Home Loan Guaranty Program. We are confident that you, and the members of the Committee, will take appropriate action to insure that our nation's deserving veterans will continue to have the benefit of a well-managed and financially sound VA Home Loan Guaranty Program.

That concludes my statement, Mr. Chairman. I again wish to thank you and the members of the Committee for allowing us this opportunity to express the DAV's views on these important issues.

**THE NON COMMISSIONED OFFICERS ASSOCIATION
OF THE UNITED STATES OF AMERICA**

"STRENGTH IN UNITY"



Statement of
Richard W. Johnson, Jr.
Director of Legislative Affairs
before the
Committee on Veterans' Affairs
United States Senate
on
VA Home Loan Guaranty
June 17, 1987



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NATIONAL CAPITAL OFFICE

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The Non Commissioned Officers Association of the USA (NCOA) sincerely appreciates the opportunity to comment on the Veterans Administration Home Loan Guaranty Program and the legislation under consideration by the committee. NCOA has been asked to comment on three pieces of legislation: the loan guaranty provisions of S.9; the Administration's proposal to amend the loan guaranty program, S.920; and H.CON.RES. 79, the House passed resolution expressing the sense of Congress that the VA's loan origination fee should not exceed one percent. Additionally, NCOA will attempt to address each of the issues identified in the Chairman's letter of invitation as topics for comment. First, however, NCOA would like to make a few general observations about the loan guaranty program and share with the committee NCOA's philosophy of loan guaranty operations.

PURPOSE

Most veterans' programs serve a clearly defined purpose. To remind those who propose to tamper with the program, Congress frequently codifies these purposes as guidelines against which such modifications might be measured. Unfortunately, no such guidelines have been established in law for the VA Loan Guaranty Program. Nevertheless the goals and purposes are clear. They are:

1. Assist the veteran in purchasing a home.
2. Assist the veteran in retaining the home.
3. Manage the program effectively to minimize its costs.

These purposes should be codified and each proposed modification to the program should be measured against these provisions. Proposals which do not contribute to achieving these goals or proposals or which detract from achieving these goals

should be rejected.

ORIGINATION FEES

Much of the current concern about the loan guaranty program centers around losses from the loan guaranty revolving fund (LGRF). Loan origination fees were instituted "temporarily" to help offset these losses and the need for massive appropriations. The losses were and are still exclusively attributed by most to high foreclosure rates. Little consideration, if any, has been given to portfolio sales and management policy which contributed to the loss. And, the singular answer to the problem was to begin charging veteran home buyers fees, first at one-half percent of the value of their loan and now at one percent of the loan to fund a benefit which costs the VA less than \$100 per veteran. As a result, the program has become one of veterans } helping veterans administered by the VA.

NCOA maintains, as it has stated before, that portfolio management and sales practices forced on the VA by the Office of Management and Budget (OMB) during the 1970's led to depletion of LGRF income sufficient to support the loan guaranty program through the economic recession of the early 1980's. Portfolio sales, ordered by OMB, robbed the LGRF of income producing assets that would have substantially mitigated the need for appropriations in amounts made by Congress over the past few years. Additionally, fees charged to veteran participants in the program would probably also have been unnecessary.

A Senator once noted that getting a handle on the problem like this is "like trying to nail jello to a wall." It proves an amazingly astute observation. There is little chance of rebuilding the VA's loan portfolio to a level which would restore the program to self-supporting unless the VA is prohibited from selling loans below par. Even sales above par should be restricted unless they are necessary to a long term goal of

restoring the fund to self sufficiency. Continued asset sales, particularly when made only to meet deficit reduction objectives, can only lead to future problems. Neither do such sales meet with any purpose of the program.

PROGRAM SUCCESS

In NCOA's opinion the loan guaranty program is a national asset. It has assisted more than 12 million veterans in purchasing homes. It has increased the tax base of communities across the country by more than \$275 billion. More importantly, it has fulfilled national objectives by rewarding veterans for their service, by extending the opportunity for home ownership to a large sector of society and by operating a government program to serve a purpose for which no private sector initiative exists. Therein lies one of NCOA's greatest concerns.

The Administration seems to have lost sight of the program's value. It was never intended to operate at no cost to the government. Neither was it intended to operate without self-supporting profits. Yet current policy suggests transferring the profits of the program to the private sector through loan sales, increased fees, modified forbearance rules, gratuitous changes in underwriting criteria, etc. Veteran participants pay the price of these policy changes. For example, in recent months the VA has changed its underwriting criteria and has proposed changes in fixed interest rate requirements.

INTEREST RATES AND UNDERWRITING

While elimination of the fixed interest rate has no fiscal impact on the VA it can have a devastating impact on home buyers. The current maximum rate is established and adjusted under law by the Administrator to reflect current market trends. It is generally kept at the low end of the market scale for mortgage lending to assure somewhat universal treatment of veterans in

home purchases. Taken together with the "point" limit it precludes situations where veterans may pay vastly different prices to finance homes of relatively equal value. This fixed rate also serves the nation as something of a benchmark with which commercial lending institutions must compete. In other words it keeps the mortgage lending rates competitively low -- not artificially low as many allege. It is unlikely that veterans will be able to "negotiate" rates as the VA states. Instead, rates will continue to be set by individual institutions, not really subject to the kind of give and take the word "negotiate" implies. Furthermore, with no rate ceiling or competitive mark, lending institutions will be free to set their own rules. For example, rates may be fixed at one level for 80 percent loans, at another higher level for 95 percent loans and at a still higher level for no money down loans, denegating a mainstay advantage in the VA loan guaranty program. Additionally, while the point limit may remain in law, there does not appear to be any method of preventing point shifting from the seller to the veteran by increasing the loan interest rate. NCOA firmly believes elimination of the fixed maximum rate would be extremely detrimental to veterans.

The changes in underwriting criteria were made rather gratuitously by the VA in a defensive effort to placate those who allege that the more liberal previous rules were in some way responsible for high foreclosure rates. However, there is no data to link VA underwriting criteria to mortgage foreclosures. NCOA believes most foreclosures are caused by unpredictable events not likely to be disclosed or discovered during credit screening. Divorces, illness, unemployment and other unforeseeable events are the primary causes of foreclosures. When compounded by the economic recession of the early 1980's and the VA's portfolio liquidation and management policies, it is easy to see how the loan guaranty program was caught short of funds. Yet, it is the veteran who is paying the price in funding fees and in the denial of participation in the program by changes

in underwriting rules and criteria that were undesirable and unnecessary. The shame here is that there is no way to quantify the number of veterans adversely affected by the new rules.

All of these practices encroach on the fundamental values of the program to the veteran. Those values are no money down loans, fixed interest rates, fully assumable mortgages, and slightly more liberal underwriting criteria than might be found commercially. Each of these benefits are being slowly eroded by a lack of positive leadership to assure that the program meets its three basic goals.

CHANGE WITHOUT PURPOSE

Neither is there a reasonable basis to assume changes such as these would have any positive effect on the program. As previously stated there was no evidence to support a change in underwriting criteria nor is there any evidence to suggest the change has reduced foreclosures. Changing interest rate setting rules serves no purpose of the program nor is there any data to justify the change. Neither was there any data to support a change in FHA rules but that proposal won by only 30 votes in the House and since the change was made FHA has not attempted to measure its impact. In fact, the Department of Housing and Urban Development could not begin to tell this committee how "negotiated" interest rates have affected their program. NCOA urges the committee not to let such changes for change sake further affect the VA program.

S.9

There are two provisions in S.9 related to the loan guaranty program. One would increase the guaranty amount from \$27,500 to \$36,000. The other would permanently exempt the program from sequestration under Public Law 99-177 commonly know as "Gramm-Rudman". Both are very necessary changes in the program.

The value of the loan guaranty has diminished considerably since it was last adjusted in 1980. While Congress has attempted to adjust this figure several times since then, it has been unsuccessful. Congressional intent to keep the guaranty amount current has been excellent, but political pressures and budgetary constraints have made performance poor.

A bill recently introduced by House Veterans' Affairs Housing Subcommittee Chairman Marcy Kaptur, addresses the problem somewhat differently. Her bill proposes to eliminate the dollar cap on loan guaranties in favor of providing a fixed percentage. As a result the need for timely review of the cap is eliminated, the VA's liability is substantially reduced on smaller loans, the veterans liability is substantially lower on smaller loans, and it will be possible for veterans to purchase any house within their means under the VA Loan Guaranty Program. The only unfortunate aspect of such a change which NCOA can foresee is that partial guaranties will be eliminated by the proposal. It would however be possible to grandfather those veterans currently entitled to a partial guaranty who have not used the full entitlement of \$27,500 by the date of the enactment.

This change would fulfill two program goals. It would assist veterans in buying homes and it would help to minimize program costs. Accordingly, NCOA urges the committee to consider this alternative to providing an increase on the fixed guaranty amount.

Exempting the loan guaranty program from Gramm-Rudman is also highly desirable and has NCOA's full support. Congress has already had to act twice to prevent the program from curtailing operations because of artificial ceilings set by the deficit reduction act. This measure would preclude future problems. Providing such predictability in the program is good for the veteran from both a home buying and management standpoint.

S.920

The Administration accurately named this proposal as the "Veterans Housing Amendments Act of 1987". Calling it an improvements act would have been pure fraud. NCOA has already addressed the issues of interest rate modifications and increased fees. Neither benefits veterans or achieves program objectives, thus NCOA is opposed to these provisions of the bill. S.920 does magnanimously propose a 1.5 percent increase in the guaranty amount raising it from \$27,500 to \$27,915. However, the Administration's logic fails to consider the years of inflation and neglect which have depreciated the value of the figure by more than 30 percent. As previously stated in our comments on S.9, NCOA supports the concept of converting to a fixed percentage of guaranty in lieu of a dollar figure subject to become outdated.

Other provisions of S.920 seek to authorize direct appropriations to the LGRF, eliminate certain inspection and certification requirements on manufactured homes, authorize lenders to approve appraisals and reasonable values and eliminate the sunset date on the "no-bid" acquisition formula established by Gramm-Rudman. All of these proposals fall within program goal 3, managing the program at a minimum cost. In that respect they serve veterans.

However, we urge the committee to exercise caution in approving lender approved appraisals. NCOA believes such authority should be extended only to those who have been given "automatic lender" status and should be subject to strict review by the VA. Additionally, NCOA sees no reason to legislate the "no bid" formula. We do not object to legislating it, but we do believe the VA has the authority and obligation to establish a "no bid" formula which meets the ever changing needs of veterans and the program.

In summary, NCOA does not support S.920 but would, with modifications, support some if its provisions.

H.CON.RES. 79

Adopted by unanimous consent in the House on April 27, H.CON.RES. 79 states simply a sense of Congress that funding fees charged to veteran participants in the loan guaranty program should not exceed one percent of the loan value. As previously stated, NCOA does not support any fee, particularly one which bears no relation to the cost of services provided. However, if fees are to be retained certainly a one percent limit should be set.

PROGRAM WIDE ISSUES

In addition to the legislation considered above, NCOA has been asked to comment on issues important to the loan guaranty program. Program wide issues is the first such category.

Vendee Loan and Portfolio Sales

As NCOA stated earlier, the Association is strongly opposed to the sale of VA loan assets as a method of meeting deficit reduction objectives. Rather than keeping its cow and profiting slowly from the sale of its milk, government, like a greedy farmer, wants to sell the cow for a short term profit and forsake all future income. A wise farmer who invests the money might profit more from the earnings of the sale. But government has no such investment opportunity. It has interest only in using the short term cash receipts to achieve accounting goals. It is literally selling money at a discount.

Selling vendee loans without recourse and liquidating \$900 million in loan assets are undesirable and unwise. The VA has

already made one offering of loans without recourse and received bids of fifteen cents to sixty-seven cents on the dollar. Moreover, the response was not entirely unexpected. Frankly, there just does not seem to be a civilian market for such sales. The discounts offered on loans which are sold with recourse are also frequently unprofitable. Liquidating of nearly \$1 billion in portfolio assets simply equates to a loss of future income. NCOA is opposed.

Staffing and Equipment

There is no doubt that the VA could better manage the loan guaranty program with more modern equipment and increased staffing. Unfortunately, there is no known staffing ratio by which to authorize personnel levels. In recent testimony before the House Veterans Affairs Subcommittee on Housing, General Accounting Office representatives testified that the number of loans handled by VA staff ranged from 400 to 1,500. They did not attempt to suggest where in this range adequacy existed or even if it existed. NCOA is not even certain standardization of staffing levels is desirable. The requirements of loan servicing in one area may far exceed the requirements in another. Yet some attempt must be made to define the problem before a solution can be reached.

Ms. Gloria Royce of the House Committee staff suggested a possible way of making better use of resources along this line -- flex-time. Using flex-time for loan guaranty employees would accomplish several desirable objectives. First it would stagger access to equipment allowing a better use of these resources. Additionally, evening hours will probably contribute to greater success in contacting veterans to resolve problems or defaults before foreclosure becomes necessary. NCOA endorses this concept.

Underwriting on Assumptions

In an effort to reduce equity skinning and to reduce indebtedness of veterans a growing number of people have recommended that loan assumption be accompanied by new underwriting to determine the buyer's suitability. A provision to accomplish this is included in the House bill. It requires new underwriting on assumptions and provides that the lender may call any note due and payable if the veteran allows an assumption without lender review. It also provides that a lender who fails to notify the VA of an assumption shall be liable for any VA losses sustained on a subsequent default. Concurrently, the veteran would be released from liability under the loan but his or her entitlement would not be reinstated.

New underwriting serves a desirable goal of reducing veteran indebtedness. However, the technical aspects of implementing such a proposal seem to place an unfair burden on the veteran. A failure in compliance can result in disaster.

NCOA concurs in the concept of finding a way to release all veterans from liability on the assumption of guaranteed loans. Ideally that release would not interfere with the quick sale now so beneficial to veterans. We are not convinced that new underwriting, at least as proposed in the House bill, is the method which should be adopted. We do believe that because new underwriting diminishes the assumption benefit that reinstatement should accompany release from liability.

ASSISTANCE TO VETERANS

The second major area of concern relates directly to assistance to veterans.

Counselling

Herein lies one of the most significant shortfalls in the program. According to GAO testimony the only counselling given to veterans in jeopardy of default or foreclosure relates to trying to establish a repayment schedule suitable to the veteran and acceptable to the lender. Options of home sale, voluntary deed, refunding and refinancing are usually not discussed by the VA in their contact with veterans. These are all viable options which should be presented for consideration by the veteran. They fall within goals number 2 and 3 of the program; assist the veteran to keep the home and, minimize management cost. Concurrently, a veteran who selects wisely from among the options may benefit substantially from the reduced indebtedness arising from some options.

Prepurchase counselling would probably not contribute significantly to reducing default rates or to improving the average veterans' understanding of his options in curing a default. However, much better efforts could be made to counsel veterans who are in default. As previously discussed, use of flex-time by VA employees would probably be a major asset. Additionally, a small counselling guide of five or six pages discussing the financial options discussed above in real dollar terms might further aid in reducing veteran indebtedness and losses from the program.

Refinancing

Refinancing is always an option that when properly utilized can reduce a veteran's indebtedness and help in retaining the home. Even veterans not in jeopardy of default can save thousands of dollars by refinancing to take advantage of a decline in interest rates. Unfortunately, many veterans who are stationed away from home cannot take advantage of these savings because of VA rules requiring residency in the house.

Senator Murkowski, we are told, will introduce legislation allowing such veterans to refinance their homes. We commend his efforts. Similar language is also provided in the House bill. Although NCOA believes some of the language of the House bill could use some technical adjustment, the thrust of the proposal is most desirable.

These provisions are fully in keeping with goal 2 of the program and have NCOA's full support.

VA Forebearance Policy

VA forbearance policy is something that will have to change with increased counselling and increased use of options to foreclosure. As discussed above, greater consideration should be given to explore refunding, refinancing and other alternatives to foreclosure. These might take time. Additionally, when a situation is clearly hopeless, increased forbearance can only lead to increased indebtedness. While it may sound harsh, such forbearance would not serve the veteran in the long run.

Default Reductions

Once again, expanded counselling and use of default alternatives is the best suggestion NCOA can make to reduce default rates.

Additionally, the committee should consider provisions of the House bill which would allow the VA to provide loans to veterans to finance delinquent indebtedness. In many cases a default which now leads to foreclosure and loss could be cured if funds were available to a veteran to bridge a gap in income.

Although this program entails some unusual risks it is estimated that even a 40 percent success ratio would save the veteran and the VA money.

MINIMIZATION OF COST

The last general area for comment concerns recommendations to minimize the cost of the loan guaranty program. NCOA has already suggested taking steps to restore the profit potential of the revolving fund by limiting loan sales. The Association has also recommended ways to reduce foreclosures through improved counselling, use of flex-time by VA employees, and by innovative use of refinancing, refunding, and bridge loans. Insuring all loans at a fixed percentage will also substantially reduce losses since most foreclosures are on loans of less than \$70,000.

Unfortunately, none of these initiatives will reduce the current inventory of homes nor are they likely to be in place in time to help substantially in the reduction of homes bound for the VA inventory within the next few months. However, NCOA believes the inventory will begin to dwindle as foreclosures decline as a result of implementing the changes NCOA has recommended or endorsed.

Hopefully, Congress will demonstrate some forbearance to this process. Laws making radical changes in disposition policy will only mean greater losses. For example, changing the cash bases sales requirements on vendee loans will only mean deeper discounts to buyers and associated losses to the program. Lots of remedies can and should be tried. Bonuses could be paid to realtors or others who identify buyers for homes that have languished in the inventory. Below market VA financing on some homes might be considered as an alternative. The VA might even consider renting or leasing some properties in markets where sales are weak. This would serve a dual purpose of producing income and protecting the property against vandalism and neglect.

It took several years to create the problem however, and it may take years to resolve. We implore Congress and the committee to be patient in seeking results.

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PARALYZED VETERANS
OF AMERICA

Forty Years of Service
1947-1987

STATEMENT OF
BOB MORAN, ASSOCIATE LEGISLATIVE DIRECTOR
PARALYZED VETERANS OF AMERICA
PRESENTED TO THE
SENATE COMMITTEE ON VETERANS' AFFAIRS
CONCERNING THE
VETERANS ADMINISTRATION'S HOME LOAN GUARANTY PROGRAM
June 17, 1987

Mr. Chairman and Members of the Committee, I am Bob Moran, Associate Legislative Director of Paralyzed Veterans of America, and on behalf of the members of PVA, a congressionally chartered veterans' service organization, I want to thank you for affording us the opportunity to present our views here today.

Initially, I want to extend PVA's appreciation to you, Mr. Chairman, and the Members of this Committee, for your efforts to improve the effectiveness of the Veterans Administration's Home Loan Guaranty Program and for allowing PVA the opportunity to work with you and your staff in this important endeavor.

The VA's Home Loan Guaranty Program

Since the program's inception in June of 1944, the Veterans Administration's Home Loan Guaranty program has assisted over 12 million veterans and their families in obtaining suitable, affordable housing. The VA Home Loan Guaranty program is an entitlement program, with every veteran meeting the requirements, as provided by statute, being eligible for the guaranty of their mortgage up to 60 percent of the loan or \$27,500, whichever is less. It has been one of the most successful housing programs in this nation's history, and the vast majority of loans guaranteed have cost taxpayers only the minor administrative cost of processing the initial loan. Without a doubt, the VA Home Loan Guaranty Program for 43 years has been a good investment in America, providing stability and expanding the tax base of nearly every community in our country.

S.9

PVA applauds the Chairman and Committee cosponsors for introduction of S.9, which increases the maximum guaranty permissible for VA guaranteed home loans and exempts the VA Home Loan Guaranty Program from sequestration. Effective October 1, 1987, Section 6 of S.9 amends Title 38, U.S.C., increasing the maximum guaranty amount of a VA home loan from \$27,500 to \$36,000. PVA fully supports the intent and purpose of this provision. As stated earlier, since the program's inception, the VA's Home Loan Guaranty program has assisted over 12 million veterans and their families in obtaining housing. This is proof enough that the VA Home Loan Guaranty program has been a successful

program, but it needs to keep up with the ever increasing cost of housing today.

The last time the VA Home Loan Guaranty amount was increased was October 1980, and housing costs since then have dramatically risen making the average cost of a house today over \$111,000. An increase in the loan guaranty amount is warranted and greatly needed. New housing purchased under the VA Home Loan Guaranty Program will also assist the housing industry and housing development nationwide. In turn, this will tend to improve employment for skilled and unskilled workers for certain labor markets, and as a consequence, the government receives uncalculated benefits. In recognizing the escalating costs associated with housing today, PVA supports an increase in the maximum amount of a VA Home Loan Guarantee.

Another provision contained within S.9 is Section 8 which would exempt the VA's Home Loan Guaranty Program from sequestration. This section will exempt from sequestration benefits under Chapter 37, of Title 38, U.S.C., relating to housing for certain eligible veterans. PVA endorses and fully supports the purpose of this provision within S.9.

S.920

Mr. Chairman, legislation introduced at the request of the Administration, S.920, includes various provisions, concerning the VA's Home Loan Guaranty Program. PVA will comment on two provisions contained within the legislation which have direct implications for the continued viability and security of the VA Home Loan Program. The other provisions of S.920, more

technical or administrative in nature, should be judged solely on their potential effects on the program and the nation's veterans. PVA has no position regarding these provisions other than to call upon this Committee to continue to view each as it may assist veterans in gaining suitable, affordable housing.

First, a provision that removes the expiration date for the "no-bid" formula continued in Section 2512 of the "Deficit Reduction Act of 1984." PVA has no objection to this provision and believes the "no-bid" option by the VA should be maintained, with the VA having the authority to pay the guaranty, thereby being released from all responsibilities or take title to the property. This provision allows the VA the flexibility to exercise the most financially prudent disposition of foreclosed properties.

Second, S.920 contains a provision that eliminates the fixed interest rate on VA guaranteed loans. This provision would allow loans guaranteed or insured under Chapter 37 of Title 38 shall be payable on such terms and conditions as may be agreed upon by the parties, and these loans shall bear interest at such rate as may be agreed upon by the veteran and the lender, provided, however, that such loans shall bear the same interest rate for the life of the loan. PVA strongly opposes this provision.

Currently, under Title 38, U.S.C., the Administrator has the authority to set maximum allowable interest rates. Several years ago the Federal Housing Administration policy, which was similar to the VA's current policy of a set interest rate, was repealed to allow for a negotiable rate. The efficacy of this change certainly is questionable as was illustrated by introduction of

legislation that would repeal the negotiable rate used by FHA, and revert it back to the policy as presently used by the VA. Also, if the Administration's proposal of negotiated interest rates were implemented, the "no down payment" feature of the VA Home Loan Guaranty Program could be jeopardized. PVA believes that in order for a veteran to negotiate and secure a favorable interest rate, it quite possibly would be necessary for the veteran to make a sizable down payment, thereby removing the incentive for veterans to use the program. To allow negotiated interest rates would completely negate the VA's Home Loan Guaranty Program and place the veteran borrower in a situation whereby the veteran would have to seek out favorable terms and possibly be forced by lenders to accept above market rates. PVA opposes the provision of negotiated interest rates as provided for in S.920.

H.Con.Res.79

This legislation expresses the sense of the Congress that the one percent fee imposed on Veterans Administration guaranteed home loans should not be increased. PVA is opposed to any increase of the "users fee" within the VA's Home Loan Guaranty Program. We believe that an increase, whether it be twofold or fivefold, would, if enacted, have a serious detrimental effect on the ability of veterans to obtain VA guaranteed loans and thereby discourage veteran home ownership. By raising the origination fee, veterans using their VA guaranty entitlement would either have to pay the increased fee up front, or have the fee added into the loan. This would result in the veteran having to have approximately a thousand dollars on hand, or add the user's fee into the loan, thereby, raising the amount of the mortgage and exceeding the actual property value. PVA wholeheartedly supports the passage

of H.Con. Res.79, which reaffirms that the one percent fee, charged by the VA to veterans obtaining a VA Home Loan Guaranty, should not be increased.

H.R.1452

And lastly, Mr. Chairman, I would like to briefly comment on H.R.1452, a bill introduced by Congressman Marvin Leath. The recent decline in home mortgage interest rates has resulted in lowered housing costs. Military personnel who are transferred to new duty stations are not allowed to refinance their VA home loans because they do not reside in the home. Even if the service-member's spouse and children reside in the home, they still are ineligible to refinance. PVA supports H.R.1452, a bill which would change the current law to allow active duty personnel to refinance through the VA. The veteran gets lower house payments, fewer individuals default on mortgages and the government gets additional revenue from the VA funding fee.

Mr. Chairman, that concludes my statement. Thank you and the Members of the Committee for your extremely deliberate and thoughtful consideration of these issues. I will be glad to respond to any questions that you may have.

VETERANS OF FOREIGN WARS OF THE UNITED STATES



OFFICE OF THE DIRECTOR

STATEMENT OF

DENNIS M. CULLINAN, ASSISTANT DIRECTOR
NATIONAL LEGISLATIVE SERVICE
VETERANS OF FOREIGN WARS OF THE UNITED STATES

BEFORE THE

COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES SENATE

WITH RESPECT TO

VETERANS ADMINISTRATION'S HOME LOAN GUARANTY PROGRAM

WASHINGTON, D.C.

June 17, 1987

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

Thank you for the privilege of appearing before this distinguished Committee to present the views of the Veterans of Foreign Wars of the United States with respect to the VA Home Loan Guaranty Program. The VFW is appreciative of the Chairman for holding this hearing, demonstrating his and the Committee's continuing concern for our nation's veterans being able to achieve the American dream of homeownership.

In our view the VA Home Loan Guaranty Program is without a doubt one of the most successful and beneficial VA programs available to veterans. More than 12 million loans have been approved to date, thus attesting to its great popularity and viability. There is also no doubt about the necessity of this program. Approximately 74 percent of all VA guaranteed home loans are made without a down payment, something which is not generally possible with conventional loans, and this shows that many veterans rely on this type of financing precisely for the reason that they are not required to make a down payment. Simply stated, a vast number of veterans would not be in their own homes today if it were not for this

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program. We believe the VA Home Loan Guaranty Program should continue to enjoy the full support of both the Congress and the Administration.

Approximately 20 percent of this country's population of about 220 million people have their own homes thanks to the VA Home Loan Guaranty Program. Along with providing the basic human need for shelter, homeownership instills a sense of civic pride in individuals which is at the very heart of Americanism. The VFW takes pride in the assistance it has given veterans in obtaining VA guaranteed home loans. So we are highly gratified at being asked to appear today to participate in improving this invaluable veteran's program.

Mr. Chairman, we will begin by addressing the first item which appears on this Hearing's legislative agenda as indicated in your letter of invitation. H. Con. Res. 79 attests to the strong Congressional sentiment that the one percent fee charged by the Veterans Administration (VA) to veterans obtaining a guaranteed home loan by the VA should not be increased. It is a matter of record that the Veterans of Foreign Wars strongly opposes any increase in the user fee for a VA guaranteed home loan. We hold that any such increase would exacerbate what is already a discriminatory tax, and work both to the veteran's and the home loan program's detriment. The VFW strongly opposed the initial implementation of the one half of one percent fee and was equally adamant in its opposition to the subsequent increase to one percent. We believe this one percent fee should be reduced or, better yet, totally eliminated. Contrary to our position, the Administration has attempted to increase the loan guaranty fee over the past three years. The Administration's budget again proposes an increase to the home loan origination fee. This would be one more step in the erosion of veterans' benefits and would constitute a slap in the face of those who have served this nation in its time of need. The Veterans of Foreign Wars is highly appreciative of the Congress for passing H. Con. Res. 79 which attests to the fact that the majority of this nation's lawmakers are principally opposed to solving this nation's economic woes on the backs of its veterans.

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We will now begin to address the numerous topics under consideration today, which pertain to the VA Home Loan Guaranty Program. The first group of topics as presented in our letter of invitation is grouped under the major heading of "Program-Wide Issues and Proposals." We will address these topics as listed.

The Administration's proposed sale on a non-recourse basis only of ten percent of vendee loans in 1987 and all vendee loans beginning in FY 1988 is first under discussion. The VFW is on record in support of allowing the VA to sell mortgage loans from its portfolio without repurchase agreements. The sale of mortgage loans without recourse rightly places the consequences of default upon the purchaser of the loan. This, of course, merely recognizes the speculative nature of certain loan purchases—primarily low interest loans and ones with a spotty record—and appropriately places the burden of risk on the speculator. Of course, a purchase of a mortgage loan without recourse is less attractive and, to make the loan more readily saleable, the VA often has to discount many of these loans in order to sell the mortgaged property. Thus, the VFW would recommend allowing the VA to sell loans without recourse if it can obtain a reasonable market price in order to obviate future losses. The Administration's proposal, on the other hand, to mandate the selling of ten percent of such loans without recourse in 1987 strikes us as arbitrary micromanagement. The proposal to sell all loans on this basis in FY 1988 would, in our view, completely disallow the VA to properly handle these loans and would seriously harm the program. Therefore we oppose this proposal. It should also be pointed out at this juncture that the VA's recent experiment with selling such loans without recourse was an unmitigated failure. For many years the VA has been routinely selling loans to investors and getting normal market rates for mortgages. The loans have been made with the promise that the government would buy it back if they went bad. The VA was not required to make a non-recourse sale this year, but promised the Office of Management and Budget (OMB) it would try one in preparation for 1988 when such terms are to become mandatory.

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The result was, to our understanding, a complete debacle. Two bids were for 15 cents on the dollar. The other bid, ranging from 60 to 67 cents on the dollar, covered only \$8 million of the \$84 million offered. The VA decided to cancel the sale. Clearly, requiring the VA to sell all vendee loans on a non-recourse basis would very adversely affect their marketability and the well being of the entire program.

The next point of consideration is the Administration's proposed sale of vendee loans totaling \$900,000,000 from its loan portfolio. The VFW would strongly oppose the VA's being mandated to sell such a large portion of its loan portfolio over a three-year period as is recommended in the President's Budget. We have no objections and, in fact, support the VA selling some of these loans inasmuch as this is a means to generate revenue by divesting itself of certain poor quality loans. However, the VFW would point out that this portfolio also represents VA assets which generate revenue in the form of principal and interest over the long run. To simply sell off such a large portion of this portfolio would constitute, in our minds, nothing other than a short term fix, serving to the detriment of the long term operation of the program and is therefore opposed by the VFW.

The next point of consideration is the staffing equipment shortages in the Loan Guaranty Services in the VA Regional Offices. It is our assessment that these shortages do in fact exist and that they have resulted in loans being processed at a less than adequate rate. Although there does seem to be some small improvement in the field with respect to personnel and equipment, the situation is still less than satisfactory. The recent increase in the VA interest rate should result in reduced workload and allow the Loan Guaranty Service to catch up with demand. However, it is our assessment that there will be no true improvement until the staffing and equipment needs are actually met. With respect to the aforementioned increase in the maximum VA interest rate, the VFW would ask that the Administrator exercise as much forbearance as possible before raising this interest rate so that

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as many veterans as possible may achieve the American dream of homeownership at the lowest possible cost.

The final proposal to be addressed under the heading of "Program-Wide Issues and Proposals" is to require that all assumptions of VA guaranteed loans be subject to approval of the credit worthiness of the buyer and the payment by the buyer of a loan origination fee (of one half of one percent) to be deposited in the Loan Guaranty Revolving Fund. The VFW views the proposal to ascertain the credit worthiness of an individual who is to assume a VA guaranteed loan to be well advised. Above and beyond this the VFW would recommend requiring new underwriting on VA loans which are assumed when a veteran sells his home, which would automatically release the veteran from future liability. As it now stands, unless the veteran applies for such a release from liability he or she continues to be primarily responsible for the mortgage and in the event of foreclosure, he or she is billed by the VA for any deficiency after the sale of the property. Thus a veteran is unfairly penalized and, in some circumstances, even financially ruined because of the monetary misadventure of another party. Thus the VFW would support a legislative initiative to require new underwriting on VA loans which would release the veteran seller from future liability as a matter of course. With respect to the proposal to require a one half of one percent loan origination fee to be paid by the buyer, the VFW would not oppose such a proposal inasmuch as it would contribute to the future financial health of the program and that non-veterans assuming a VA loan would then be called upon to pay for the privilege of participating in a veteran's program.

The next major area of concern under consideration today is categorized in your letter of invitation under the heading, "Assistance to Veterans Participating in the Home Loan Program." The first topic under this heading is possible improvements in the type and availability of financial counseling available to veterans, particularly at the time of loan application and upon delinquency. The VFW would support increased and improved financial counseling both by the VA and the banking community. It is our contention that all veterans should be made cognizant of the risks

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and burdens inherent in the purchase of a home. This kind of responsibility is not for everyone and we believe enhanced counseling activities should result in discouraging veterans who are not ready or able to take on such a burden from doing so. We also support the VA's efforts to improve delinquent loan servicing. Lenders are now required to give the borrower written notice within 20 days after an installment is due and unpaid and follow up utilizing personal telephone contact. The VFW also supports the procedure which requires that if no repayment arrangements can be made, the lender must attempt a face-to-face interview with the borrower before beginning foreclosure. The VA will also soon require lenders to report 90 day delinquencies to credit reporting agencies. The VFW is on record as supporting a more timely reporting of delinquencies since this action would provide an incentive for borrowers to reinstate their loans before delinquencies becomes serious, in other words, it is our contention that both the VA and the banking community should work in concert to counsel veteran borrowers and assist them in purchasing and then keeping their own homes.

Also under consideration today is the possible changes in restrictions on the refinancing of VA guaranteed loans, including:

- (a) Exempting active duty military personnel from certain of such restrictions, as specified in H.R. 1452. This proposal addresses the predicament of military officers and enlisted personnel who are transferred to new duty stations as well as foreign service officers and diplomatic personnel who are not allowed to refinance their VA home loans because they do not reside at their home. The VFW supports this proposal which would allow such individuals to take advantage of lower interest rates by refinancing their home loan. The VFW concurs that veterans should not be denied the right to refinance their VA home loans just because they have chosen to continue to serve their country and in the course of this service have been transferred. We believe that when a

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veteran is transferred in the service of his nation, it represents an acceptable reason for allowing that veteran to refinance his VA home.

- (b) Limiting the percentage of property value available for refinancing.

The VFW would not support the establishment of any such limit.

- (c) Requiring veterans--other than non-active duty military personnel--to certify their intention to occupy the property after refinancing.

Inasmuch as the veteran is already obligated under law to occupy the dwelling for which he receives a VA home loan, the VFW would view such a requirement as being an unnecessary bureaucratic burden for both the veteran and the VA.

The third major area of concern under the heading "Assistance to Veterans Participating in the Home Loan Program" pertains to the VA policy and practice relating to forbearance and other types of foreclosure relief. It is the VFW's contention the authority of the Administrator to assist veterans in keeping their homes should be greatly expanded, and this authority should be liberally exercised. We believe that the judicious exercise of sufferance and patience will greatly contribute to achieving our common goal--veterans living in their own homes and a financially healthy home loan guaranty program.

The fourth and final major topic under this hearing pertains to ways to reduce the default rates on VA guaranteed and vendee loans and, in addition, to improving the types and availability of counseling available to veterans, improving loan servicing, adhering to the new revised VA underwriting standards, and generally improving the performance of the VA Home Loan Program. The VFW is of the opinion that reduced default rates on VA guaranteed and vendee loans can be achieved by allowing veterans an extended period of grace as well as providing them with priority assistance so they may make their mortgage payments and keep their homes. We also recommend authorizing mortgage foreclosure relief in the form of VA loans to veterans facing foreclosure through no fault of their own. These loans should

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be repayable in small amounts over an extended period of time after the veteran has regained his financial health.

The final major area to be covered today pertains to the "Minimization of VA Property Acquisition Costs and Improvements in the VA's Marketing and Disposition of Foreclosed Properties." The Veterans of Foreign Wars believes improvements can be made in the manner in which the defaulted properties are handled. It is of paramount importance to reduce the amount of time real properties are held by the VA. Real properties are expensive to hold since the VA must pay taxes on all such properties in its inventory, as well as securing them against vandalism and weather. Also, the manner in which properties are acquired is of concern. In accordance with a provision of P.L. 98-369 which requires foreclosed property to be acquired on a case-by-case basis, the VA is now endeavoring only to acquire property when costs are in excess of the amount liable under the guaranty. The VFW applauds this effort which has already resulted in a significant decrease in acquisitions along with consequent reduction in cost. Vigorously pursuing this case-by-case approach should result in even greater savings.

In considering the current status and functioning of the Veterans Home Loan Guaranty Program, the delegates to our most recent National Convention adopted Resolution Number 617 which is appended to this testimony, and we urge your careful consideration of the recommendations therein.

Mr. Chairman, this concludes my testimony. I will be happy to respond to any questions you may have.

Resolution No. 617

VA HOME LOAN GUARANTY PROGRAM

WHEREAS, the VA Home Loan Guaranty Program is one of the most successful and beneficial programs available to veterans; and

WHEREAS, the popularity of this program is evidenced by the fact that over twelve million loans have been guaranteed to date in an amount exceeding \$246 billion; and

WHEREAS, loan origination fees have been enacted and subsequently increased in an effort to remedy the ailing revolving fund; and

WHEREAS, constructive changes have been implemented or proposed in the VA Home Loan Program, such as granting the VA Administrator the authority to (a) independently set VA Home Loan rates; (b) exercise greater latitude in establishing the VA home loan guarantee percentage/maximum amount; (c) authorize veterans the option to engage the service of buyer broker; and (d) amend the VA foreclosure policy to enhance the VA Loan Guaranty Revolving Fund, hence strengthening that program; now, therefore

BE IT RESOLVED, by the 87th National Convention of the Veterans of Foreign Wars of the United States, that we seek the introduction and enactment of legislation that will serve to maintain the VA Home Loan Guaranty Program as the most viable and desirable means of home financing for veterans; and

BE IT FURTHER RESOLVED, that we adamantly oppose any effort to further increase the current loan origination fee and encourage the Administrator of Veterans Affairs and other concerned parties to actively assist veterans in acquiring and maintaining their homes during economic crisis.

Adopted by the 87th National Convention of the Veterans of Foreign Wars of the United States, held in Minneapolis, Minnesota, August 15-22, 1986.

Statement of C. Earl Corkett, President of the Mortgage Insurance Companies of America, in Connection with Oversight Hearings of the Senate Committee on Veteran's Affairs.

July 2, 1987

Mr. Chairman and Members of the Subcommittee:

The Mortgage Insurance Companies of America (MICA)* appreciates the invitation to submit comments on the VA home loan guaranty program. MICA is the trade association which represents all domestic private mortgage insurance companies (MICs). Our industry provides default insurance to lenders in much the same way that the VA does, enabling individuals through out the United States to purchase homes of their own with minimal down-payment.

MICA has always supported the VA loan program and will continue to do so. However, since this Committee has chosen to study the program, we hope our comments will be useful.

It is important to note two points before some of the specifics aspects of the VA program. First of all, we realize that the VA program was designed with certain public policy considerations in mind which are not at issue when a private insurer evaluate risks and settles claims. Secondly, because of state insurance laws designed to limit risk, MICs cannot insure loans where the buyer does not make at least a five percent downpayment. Therefore, the no and very low downpayment loan guarantee of the VA has always been beyond the capability of a private insurer.

Guaranty Amount and Settlement Process

The subcommittee on Housing and Memorial Affairs of the House Veterans Affairs Committee is presently considering a bill entitled the "Veterans Housing Rehabilitation and Program Improvement Act of 1987" (H.R. 2672) which merits consideration by the Senate because it works toward minimizing losses to the VA by bringing many of its practices more in line with the private sector.

One section of H.R. 2672 would amend present law to provide for a maximum guaranty amount of 30 percent of the loan, to be paid to a lender on a VA home loan upon default. This would be a change from the current system where the lender is paid 60 percent of the loan amount or \$27,500, whichever ever is lower.

This provision of the bill would make the VA claims settlement process similar to the settlement process of MICs. First, it would base the insurance claim on an amount that is a percent of the loan, rather than on a set dollar amount. Second, it would preserve the option of the VA of either paying a percentage amount and leaving title to the property with the lender or taking title to the property.

The private mortgage insurance industry conducts its business very similarly. Generally speaking upon receipt of a claim an MIC will pay the entire claim to the lender and take title to the property or pay 20 to 25 percent of the total claim, depending on the policy. In the vast majority of instances today the MIC exercises the option of paying the percentage portion of the loan

amount and leaving title with the lender. This claim payment, in conjunction with the proceeds from the sale of the property, are designed to typically make the lender whole if the lender had properly underwritten the loan at origination.

As a result of these practices of MICs, lenders are accustomed to conducting business where the insurer exercise one of the two options described above and where one of those options means that the claims settlement will consist of a set percentage. Lenders, therefore, would not have to significantly alter their business practices if the VA guaranty amount becomes 30 percent of loan. In addition and more importantly, the 30 percent maximum guaranty will offer veterans in all areas of the country, even those located in very high cost areas, the opportunity to get a VA loan. MICs serve homebuyers across the country and in all types of markets using this claims settlement system.

From an operational perspective, the optional settlement process for handling claims and the formula developed for determining which option to use should continue to minimize losses to the VA and to bring its operations more in line with the private sector. Under the present system, the VA determines its option by looking at whether the cost of foreclosing on a particular home exceeds the VA's minimum guarantee. This is very similar to the way in which MICs determine which option they will exercise. In an effort to minimize their losses, generally MICs will take title to the property only in markets where property values are rising significantly and where the resale value will be enough to exceed their costs. In all other situations the MIC will pay the lender 20 to 25 percent of the loan amount.

The private mortgage insurance industry has found that the simple fact that this option exists for the insurer, places pressure for the lender to assume the role of a coinsurer and to underwrite the loan so as to minimize the likelihood of foreclosure. The concept of coinsurance historically been a very important part of the relationship between the MIC and the lender. The MIC has always been just a review underwriter, while the lender has been the primary underwriter of the loan. We have depended on the lender, who has first-hand contact with the borrower, to minimize the risk of the loan.

With the expansion of the secondary market, however, the mortgage insurer often finds that the lender does not perceive the consequence of poor underwriting done for loans originated for sale to be the same as it would for loans the lender keeps in portfolio. It is becoming common for lenders during the origination process to be primarily concerned with whether the loan meets the insurer's requirements and whether the loan, along with its servicing, can be sold in the secondary market. When the income from origination of the loan is more important to the lender than the long term yield of the asset, the risk sharing between insurers and lenders is reduced.

MICA is concerned with the erosion of the coinsurance principle. Not only does it mean an increase in the amount of claims insurers must pay but it means families are forced to leave their homes because they could not afford their home over the life of the loan. Last year the companies that comprise the membership of MICA incurred losses that are paid as benefits to lenders in the range of \$1.2 billion. While the claims that have been paid to

lenders and secondary market investors have provided very positive financial benefits, they also represent the financial distress of borrowers.

Similarly the VA paid \$365.6 million in claims last fiscal year. Like those claims paid by private insurers, they represent financial benefits to lenders and investors but they also represent families who have lost their homes. Increasing the lenders' potential for loss in the case of default perhaps will encourage them to become coinsurers and work toward not simply increasing their volume of loans, but towards ensuring that consumers purchase homes they can afford.

Default Assistance

Another section of H.R. 2672 requires the VA to take steps to notify and counsel veterans who are in default about alternatives to foreclosures. It also encourages lenders to advise defaulting veterans about such alternatives. The lending process is a continuum that does not end when the loan is closed but must involve good servicing to the veteran over the entire life of the mortgage. Lenders that refuse to recognize this responsibility should not make VA loans.

MICA applauds the subcommittees in its efforts to provide veterans with financial counseling. MICs have worked with counseling services and have found that, on a case-by-case basis they can be very successful.

From our industry's experience MICA believes that the VA can minimize its losses by contacting borrowers directly and through encouraging lenders to do so. In fact, MICs have found such programs to be so successful that many have instituted their own counseling services.

Assumptions

Section 11 of H.R. 2672 requires that, when a VA loan is assumed, a new credit underwriting be done on the borrower assuming the loan if the selling veteran wishes to be released from liability. With this amendment, the subcommittee again is attempting to minimize losses to the VA and thus make more funds available to veterans wishing to purchase a home.

This provision like the others discussed above would bring VA loans more in line with the private sector. A due-on-sale clause is contained in virtually every conventional loan today for two primary reasons. First of all, lenders and insurers find that in today's volatile financial markets, the flexibility to change the interest rate must exist when the house is sold. Secondly, they know that at the very foundation of a sound lending and mortgage insurance operation is the principle that each loan and each borrower must be examined and underwritten separately. They realize that financing is not part of the permanent structure and that there is no justification for allowing the original borrower to capitalize and gain a windfall profit if the market rate on mortgages has increased.

With this amendment the subcommittee is acknowledging one of the two problems with assumable loans mentioned above. A determination

must be made of the credit worthiness of the individual assuming the loan in order to adequately insure that the loan will be repaid. This is essential to minimizing the risk to the insurer.

Thank you for this opportunity to comment. I will be happy to expand on any point upon your request.

Statement of
Edward M. Gramlich
Acting Director
Congressional Budget Office

before the
Committee on Veterans' Affairs
United States Senate

June 17, 1987

Mr. Chairman, I am pleased to have the opportunity to submit this statement on the Veterans Administration home loan guaranty program to this Committee. My statement will focus on four primary issues:

- o The costs and budgetary treatment of the home loan guaranty program;
- o The Administration's credit reform proposal;
- o The proposed sales of vendee loans without recourse to the government; and
- o The estimated cost of several legislative proposals that would affect the home loan guaranty program.

THE COSTS AND CURRENT BUDGETARY TREATMENT OF THE HOME LOAN GUARANTY PROGRAM

The Veterans Administration (VA) home loan guaranty program enables eligible veterans to obtain mortgage credit from private lenders on concessionary terms. The VA guarantees the lender against potential losses from borrower default up to the lesser of 60 percent of the mortgage amount or \$27,500. The VA guaranty assures the lender of repayment, which the borrower's downpayment and payment of private mortgage insurance would provide on a conventional loan.

The VA charges veterans who receive a guaranteed home loan a one-time fee of 1 percent of loan principal, which may be financed. The Veterans Administration also sets a ceiling on the interest rates on guaranteed home loans that usually is about one-quarter to one-half of one percent below the rate on comparable private mortgages. VA-guaranteed mortgages are assumable by subsequent purchasers of the homes.

When a veteran defaults on a mortgage guaranteed by the VA, the Veterans Administration frequently pays the lender the remaining balance of the loan and acquires title to the property. To recover some of these default costs, the VA sells the properties. In approximately 60 percent of these home sales, the agency takes back a mortgage from the purchaser. The agency then sells the mortgage--a so-called "vendee loan"--to an investor. To date the VA has sold all vendee loans with recourse to the government--that is, with a promise to buy back or replace any loans that default. As under the home loan guaranty program, the VA does not require borrowers to make downpayments and charges them a one-time fee of 1 percent of loan principal.

Veterans who borrow under the home loan guaranty program and borrowers--veterans and others--who obtain a vendee loan from the VA receive substantial subsidies from the government. The principal source of

these subsidies is the VA's 1 percent guaranty fee, which covers only a fraction of the costs of acquiring, renovating, and selling properties when borrowers default. Private mortgage insurers would charge a substantially higher fee to provide the same coverage on zero downpayment conventional mortgage loans. The President's budget for fiscal year 1988 estimates the alternative private fee would equal 5.6 percent of loan principal on both home loan guaranty and vendee loans.

The lower interest rate that eligible veterans pay on home loan guaranty mortgages provides a second subsidy to these borrowers. This subsidy arises because VA-guaranteed home loans may be included in pools of federally guaranteed and insured mortgages used to collateralize mortgage-backed securities (MBSs) guaranteed by the Government National Mortgage Association (Ginnie Mae). Because they are federally guaranteed, Ginnie Mae MBSs are the cheapest way of financing mortgages, and most of the cost savings achieved are passed through to VA home loan and other federally guaranteed borrowers. It is important to recognize, however, that this second subsidy enjoyed by VA home loan guaranty borrowers is not provided by the VA home loan guaranty program itself and, therefore, should not be lumped together with the subsidy provided by the low origination fee the VA charges.

Estimated Subsidy Costs

The President's fiscal year 1988 budget estimates that each borrower receiving a VA-guaranteed home loan receives a subsidy equal to 6.4 percent of the principal amount of the loan. The Administration estimate incorrectly lumps together the effects of the low VA origination fee and Ginnie Mae MBS financing. While CBO believes the estimate may be too high, we have not done a reestimate. Based on the 6.4 percent figure, the Administration estimates that the \$26.7 billion in new home loans the President's budget estimates will be guaranteed during fiscal year 1988 will provide borrowers subsidies of \$1.7 billion. The President's budget estimates the subsidy on vendee loans also to be equal to 6.4 percent of loan principal. CBO believes this subsidy percentage may be too low, since vendee loans have much higher default rates than home loan guaranty mortgages, and private mortgage insurers probably would require a higher up-front premium than they would on home loan guaranty mortgages. Based on the 6.4 percent number, the Administration estimates the subsidies on the \$746 million in vendee loans that the President's budget projects will be made in fiscal year 1988 will be \$48 million.

The President has proposed legislation—introduced in the Senate as S. 920—that would lower the subsidies provided by VA home loan guarantees and vendee loans by increasing the up-front fee from one to 2.5 percent of

loan principal, and by eliminating the interest rate ceiling on home loan guaranty mortgages. The Administration estimates that these changes would reduce the estimated subsidies of VA home loan guarantees from \$1.7 billion to \$0.8 billion, and of vendee loans from \$48 million to \$19 million, in fiscal year 1988. CBO's estimate of the budgetary impact of S. 920 is discussed below.

In analyzing federal credit programs, one should note that the government provides a subsidy to a borrower only by incurring an equivalent loss. Thus, estimates of the subsidies provided by credit programs are also estimates of the subsidy costs of those activities--that is, estimates of the equivalent in today's dollars of the net losses in future years from the credit assistance. Subsidy cost is the best measure of the real costs to the government of credit assistance.

Deficiency of Current Budgetary Treatment

The current budgetary treatment of federal credit programs obscures the subsidy costs of VA home loan guarantees and vendee loans. This difficulty arises because cash-based accounting, designed to capture the cost of spending programs, is ill - suited to credit activity, which necessarily involves the exchange of cash now for promises to pay cash in the future.

Under cash-based accounting, VA home loan guarantees do not result in outlays until defaults occur. The substantial delay between commitments and outlays for guarantees results in an understatement of the cost of new activity and of its effect on the budget deficit in the year in which the VA commits itself to these liabilities. Indeed, because cash-based accounting requires the VA to show guarantee fees as offsetting collections, which reduce outlays, new guarantees appear to lower government costs in the year when guarantee fees are collected.

Further, under cash-based accounting, when the VA exchanges an acquired property for a vendee loan mortgage, the transaction is scored as having no effect on outlays or the deficit. This treatment assumes that the loan the agency receives is equivalent in value to the home. As argued above, however, the VA actually suffers a loss on a vendee loan, because the current value of the principal and interest payments the borrower agrees to make on the mortgage, net of expected default and other costs to the VA, is less than the value of the property the agency gives up. Under cash-based accounting, there is no way of capturing this loss--the subsidy cost of the loan--up front, when the exchange occurs.

Finally, repayments and the proceeds of sales of vendee loans are scored as offsetting collections (reducing the deficit) when received, thereby making outlays a misleading indicator of current activity.

The unified budget combines in one account, the VA loan guarantee revolving fund, all the cash flows from the home loan guaranty program--fees on new guarantees; disbursements to acquire and improve properties and to repurchase vendee loans sold; and receipts from vendee loan sales. The President's January 1987 budget submission, which assumes enactment of the legislation proposed by the President, shows zero budget authority, and net outlays of negative \$136 million, for the fund for fiscal year 1988. CBO's reestimate of the President's fiscal year 1988 budget shows zero budget authority and negative \$340 million in outlays for the fund for the year. Neither set of estimates provides information on the subsidy costs of the program identified above, nor enables the Congress to identify or control those costs.

THE ADMINISTRATION'S CREDIT REFORM PROPOSAL

In March, the Administration proposed legislation--introduced in the Senate as S. 745--and amendments to the President's fiscal year 1988 budget that would report the subsidy costs of new credit activity in agency budget accounts. Under the proposal--known as credit reform--the VA would request annual appropriations equal to the amount of subsidy to be provided to borrowers receiving home loan guaranty mortgages and vendee loans during each fiscal year. The subsidy appropriations would be to a new budget account--a companion of the VA loan guarantee revolving fund--and

would involve budget authority and outlays in the same manner as direct spending programs.

When loans guaranteed under the home loan guaranty program were disbursed or properties exchanged for vendee loan mortgages, the VA would use these appropriations to pay the estimated subsidy costs of the transactions to a new central revolving fund in the Treasury. The central revolving fund would receive the transferred appropriations and guaranty fee payments, and would be responsible for future disbursements and collections associated with both forms of new credit activity. It would finance these outlays with subsidy payments from the VA, repayments, recoveries, loan sales, and borrowing from the Treasury.

Impact on the VA Home Loan Guaranty Program

Table 1 shows the impact of the Administration's credit reform proposal on the VA loan guaranty revolving fund. The figures are from the President's budget for fiscal year 1988 and reflect the legislation proposed by the President which would increase the upfront fee charged by the VA. A number of aspects of the table are noteworthy.

First, credit reform would require an appropriation to fund the subsidy costs of VA home loan guarantees and vendee loans in fiscal year 1988. The

figure shown in Table 1--\$779.6 million--reflects the subsidy cost estimates in the President's budget discussed above. The requirement that funds be appropriated to cover the subsidy cost of these activities before loans can be made or guaranteed would enable the Congress to control those costs in advance.

TABLE 1. THE PRESIDENT'S FISCAL YEAR 1988 BUDGET FOR THE VA LOAN GUARANTY REVOLVING FUND (In millions of dollars; not Reestimated by CBO)

	Budget Authority	Outlays
Current Budgetary Treatment	0.0	-136.3
With Credit Reform:		
Subsidies appropriation	779.6	586.1
Loan guarantee revolving fund	403.3	262.2
Total	1,182.9	848.3
Treasury - credit revolving fund (LGRF portion)	0	-884. ^a / ₁
Totals	1,182.9	-36.3

Source: Office of Management and Budget

- a. Reflects \$100 million for purchase of reinsurance of \$1.4 billion in new guaranteed home loans made in fiscal year 1988.

Second, the total amount of credit assistance provided under the VA home loan guaranty program would not change as a result of credit reform per se, which would make no substantive changes in the VA's credit programs. The Administration has stated that it does not intend for the appropriation of subsidies for VA home loan guarantees and vendee loans to limit eligible veterans' entitlements to credit assistance or otherwise to constrain program operations. Thus, the \$779.6 million subsidy appropriation figure in Table 1 is only an indefinite amount corresponding to the Administration's estimates of what the subsidy costs of the program would be if S. 920 were enacted. If S. 920 did not become law and if credit reform were adopted, a higher subsidy appropriation for the VA home loan guaranty program would be necessary.

Third, credit reform would increase Veterans Administration outlays for guaranteed home loans and vendee loans--in the new subsidy account and the current loan guarantee revolving fund--by about \$985 million in fiscal year 1988 (assuming the Administration's estimates and enactment of S. 920). This increase would occur as the income from new loan guaranty fees and sales of vendee loans was shifted to the new Treasury revolving fund. Assuming that S. 920 were enacted and the amounts of assistance provided and private market conditions remained unchanged, in about thirty years--when all VA home loans guaranteed or vendee loans made before credit

reform were paid off--the budgetary costs of the two programs would stabilize at about \$780 million in appropriated budget authority and outlays each year (assuming the Administration's subsidy cost estimates). At that point, the VA's budget would show only the subsidy costs of home loan guarantees and vendee loans.

Fourth, the new Treasury central revolving fund would spend \$100 million in fiscal year 1988 to reinsure \$1.4 billion in new home loan guarantees issued in that year. The purchase of reinsurance would provide a market-based estimate of the subsidy costs of the home loan guaranty program, and the initial outlays would be offset by equivalent reductions in federal costs for purchases of defaulted loans and other default-related disbursements in future years.

CBO supports the credit reform proposed by the Administration as a substantial improvement in the budgetary treatment of the credit activities of the VA and other agencies, for three reasons:

- o The information in the President's budget and Congressional budget resolutions does not measure adequately the costs of the VA's home loan guaranty and other credit programs and, thus, is a poor means of controlling those costs.

- o Because subsidy cost estimates are comparable to the familiar appropriations of budget authority for most discretionary spending, the Congress can use them to weigh the impact of credit against other forms of federal assistance and against the ultimate tax burden they create.
- o Credit reform offers the Congress a way of controlling credit program costs at the time decisions are made, through the appropriations process.

CBO also believes that, even if credit reform is not enacted, estimates of the subsidy costs of the VA's credit programs can help the Committee and the Congress evaluate different types of credit assistance provided by the agency and compare the costs of the VA's credit programs with the costs of other government programs.

PROPOSED SALES OF VA LOAN ASSETS WITHOUT RECOURSE TO THE GOVERNMENT

Before fiscal year 1987, the VA sold all vendee loans with recourse to the government--that is, with a promise to repurchase or replace a loan that defaulted with another mortgage of equal value. In April, the VA attempted to sell without recourse a portion of the vendee loans made during fiscal year 1987. Beginning in fiscal year 1988, all vendee loans will be sold on a

nonrecourse basis. The change is consistent with the Administration's decision to score all loan asset sales with recourse as borrowing, beginning in fiscal year 1988.

The VA has a significant portfolio of vendee loans that currently are delinquent, have a poor payment history, or may have poor documentation. As part of its new loan sales program, the Administration has proposed to achieve deficit reduction by having the VA sell this entire portfolio--estimated to be \$900 million--without recourse. The loans would be sold in equal \$300 million installments in each of fiscal years 1988, 1989, and 1990.

CBO's Views on Loan-Asset Sales

CBO's position on the merits of selling loan assets with or without recourse to the federal government is two-fold. First, we agree with the Administration that the sale of loan assets with recourse to the government, or with a federal guarantee, is a form of borrowing because the government has retained the risks inherent in the loans. In effect, the government has taken on an obligation to make good on any losses realized by the investor because of default. If loan assets were removed from the federal government's books by such "sales," the government would be left with unrecognized but potentially sizable liabilities. Further, from the investor's point of view, the purchase of loan assets with recourse is equivalent to the purchase of Treasury securities. Aside from the fact that they would be less

liquid, they are as good as Treasury securities because the investor assumes no credit risk.

In contrast, loan asset sales that are final and without any recourse to the government entail only an exchange of one asset--cash--for another--loans. The investor is entitled only to the stream of payments on the purchased assets and has no further claim on the federal government. All of the risk inherent in the assets has been transferred from the government to the investor. The proceeds of such sales are equivalent to early repayment of principal and are counted as offsetting collections under current cash-based budget accounting.

Second, CBO believes that reductions in the budget deficit, properly measured, should only reflect actions that actually improve the government's financial condition and, thus, lessen the need to reduce spending or increase tax revenues now or in the future. Since sales of VA vendee loan and other loan assets, with or without recourse to the government, do not improve the government's financial condition CBO believes they should not be considered to reduce the deficit. The cash the government receives in exchange for loan assets sold without recourse does indeed reduce the current cash deficit, federal borrowing, and future interest payments on the federal debt. Nonetheless, future deficits and borrowing will not be reduced because the interest and principal payments

will go to the loan asset holder, rather than the government, and these amounts are equivalent in present value terms to the proceeds of the sales. Moreover, agency loan sales do not reduce the government's demands on the credit markets--the Treasury borrows less, but the sales tap the same pool of saving. Thus, in CBO's view, loan sales--with or without recourse--are merely a more expensive form of borrowing than issuing Treasury debt, and should not be considered a form of deficit reduction because they do not improve the government's financial condition.

Loan asset sales without recourse, however, have the virtue of helping to measure the costs of VA vendee and other federal direct loans. The difference between the outstanding principal on a vendee loan sold by the VA without recourse and the proceeds of the sale--the discount from face value--is a measure of the subsidy cost of the loan: the value in today's dollars of amounts needed in the future to pay expenses arising from the loan.

The VA's Trial Nonrecourse Sale of Vendee Loans

As mentioned above, the VA will begin offering all vendee loans for sale without recourse to the government in October. In April, the VA conducted a trial nonrecourse sale of \$84 million in vendee loans. The VA used a sealed bid auction, the method the agency uses to sell vendee loans with

recourse. The VA advertised the offering in the press one month in advance and sent offering circulars to prospective buyers.

The trial offering received a total of three bids. Two were speculative and offered less than 20 cents on the dollar for less than \$1 million in mortgages on homes in only two states. The third offered 60 cents to 67 cents on the dollar for \$8 million in loans in two states. Although the latter bid was close to the VA's pre-sale minimum price of 75 cents on the dollar, the agency chose not to renegotiate the bid because it was for only a small portion of the offering.

Consideration of the three types of investors who are likely to bid to purchase vendee loans suggests why the trial nonrecourse sale of vendee loans was not successful.

- o If the loans are sold with recourse, mortgage banks will bid to buy them for pools to be financed with Ginnie Mae MBSs. These firms were not interested in the loans offered for sale without recourse in April because the mortgages could not be financed with Ginnie Mae MBSs.
- o Savings and loans and commercial banks that purchase mortgages to hold them in portfolio may bid to purchase vendee loans sold

without recourse if those loans are collateralized by homes in their region, and they hope they can buy the mortgages at good prices. The three bids the VA received at the April trial auction were from this type of investor.

- o Investment banking firms can package vendee loans sold without recourse into securities that will be attractive to large, institutional investors such as pension funds. If the VA had provided such firms enough time to evaluate the loans offered for sale, develop an appropriate form of securities, obtain investment-grade ratings, and arrange a group of underwriters to sell them, the trial nonrecourse sale could have succeeded.

Implications for Future Sales

The Congress should not interpret the results of the trial sale as indicating that future nonrecourse sales of vendee loans--or of any other federal loan assets--are doomed to failure. As noted above, such loans are potentially attractive to institutional investors, if packaged properly. Several government agencies, among them the Farmers Home Administration, have employed investment advisors to help them plan and, eventually, to execute successful nonrecourse loan asset sales. There is no reason to believe that

the VA's loans are less attractive. Of course, the VA will have to develop the marketability of their loans at some cost (or pay intermediaries a small percentage of sales proceeds for performing these services), but such investment should be cost-effective in the long run.

Many government analysts express the view that the bid prices on initial nonrecourse sales of loan assets will be cautiously low because of the absence of investor experience with high-risk federal loan assets. If the VA can assess and implement appropriate ways to package loans into securities, obtain investment-grade ratings, and identify potential investors, it can minimize any possible underbidding and maximize sales proceeds.

The portfolio loans held by the loan guaranty revolving fund which the Administration also proposes to sell beginning in fiscal year 1988 are rather different from the vendee loans the VA routinely offers for sale. The regularly sold loans are usually less than a year old, have no history of delinquency, and qualify for inclusion in pools financed with Ginnie Mae MBSS. On the other hand, many of the older portfolio loans are delinquent, have poor payment histories, or have incomplete loan documentation. These characteristics will lead investors to require substantially larger price discounts on these loans than on vendee loans (even those sold without recourse). Despite these differences, however, CBO believes that vendee loans that are not current can still be sold without recourse to the

government if sufficient efforts are made to package the loans into appropriate securities.

LEGISLATIVE PROPOSALS

At the Committee's request, CBO has analyzed S.9, the Service-Disabled Veterans' Benefits Improvement Act of 1987, and S. 920, which is the Administration's request for legislative changes in the home loan guaranty program.

S. 9

The Committee requested that CBO comment on two provisions of S.9: the increase in the maximum guaranty under the VA home loan program from \$27,500 to \$36,000, and the exemption of the loan guaranty program from sequestration under the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177).

An increase in the guaranty ceiling would have several effects. Because the increase would enable borrowers to obtain mortgages of up to \$144,000 without a down payment (as opposed to the current maximum of \$110,000), CBO assumes that the demand for loans would grow by 2.5 percent. Further, the increase in the guaranty ceiling would raise the VA's liability for default on the vast majority of mortgages guaranteed after

enactment. As can be seen in Table 2 below, in 1988 the higher loan demand would raise receipts from loan origination fees by \$14 million. In later years, however, increased default costs would offset the higher fee receipts by a growing margin.

Exempting the loan guaranty revolving fund (LGRF) from sequestration would have no net impact on the federal budget, since S.9 would not change the deficit targets established by P.L. 99-177. In the loan guaranty program, the sequestration reductions are made in the amount of new loans that can be guaranteed during the year. This reduction in guaranty commitments decreases receipts from origination fees in the first year, but has little effect on that year's default costs. Thus, sequestration of the loan guaranty program results in an increase in the outlays of the revolving fund in the first year that is more than offset by outlay savings in the future.

TABLE 2. INCREASE THE MAXIMUM VA MORTGAGE GUARANTY FROM \$27,500 to \$36,000 (By fiscal years, in millions of dollars)

	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
Budget Authority	-14	17	20	0	0
Estimated Outlays	-14	17	29	31	33

SOURCE: Congressional Budget Office.

In the CBO 1987 Annual Report (The Economic and Budget Outlook: Fiscal Years 1988-1992, January 1987), CBO projected that the 1988 sequestration might require across-the-board reductions in nondefense programs of 20 percent. This estimate, however, is subject to significant revision as the result of legislative actions, changes in the economic outlook, and other factors occurring before the sequestration report is prepared in August. For illustrative purposes only, the effects of a 20 percent sequestration on the LGRF in 1988 would be an increase in outlays of \$50.5 million.

S.920

Only two provisions of S. 920 would have a significant budgetary impact. Section 3 would increase the origination fee on guaranteed and vendee loans from 1.0 percent of the loan principal to 2.5 percent. This proposal has been estimated to reduce LGRF outlays by \$356 million in 1988 (see Table 3). Section 8 would reduce from 60 percent of acquisitions to 40 percent the ceiling on the use of VA financing (vendee loans) in the disposition of agency-owned real estate acquired through foreclosures. Since the alternatives to vendee financing--selling the properties outright for cash--would increase the initial collections of the revolving fund, LGRF outlays would be expected to fall by \$55 million were this provision to be enacted.

The remaining provisions of S.920 would extend certain authorities in connection with the loan guaranty program, which are already assumed to be extended in the CBO baseline, and would make changes in administrative procedures that would not significantly affect program spending. Thus, they would have no significant cost impact.

TABLE 3. S.920, THE VETERANS' HOUSING AMENDMENTS ACT OF 1987.
(By fiscal years, in millions of dollars)

	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
<u>Section 3: Increase Origination Fee to 2.5%</u>						
Budget Authority	-95	-190	-113	0	0	0
Estimated Outlays	-95	-356	-283	-269	-275	-326
<u>Section 8: Lower ceiling on Vendee Loans</u>						
Budget Authority	0	0	0	0	0	0
Estimated Outlays	<u>0</u>	<u>-55</u>	<u>-32</u>	<u>-13</u>	<u>1</u>	<u>14</u>
<u>Total</u>						
Budget Authority	-95	-190	-113	0	0	0
Estimated Outlays	-95	-411	-315	-282	-274	-312

SOURCE: Congressional Budget Office

CONCLUSION

In conclusion, CBO believes that the current budgetary treatment of the credit programs of the VA and other agencies presents a distorted picture of their true costs. Credit reform would significantly improve the budgetary treatment of the VA loan guarantee program by including estimates of the subsidy costs of new home loan guarantees and vendee loans in the budget. Finally, CBO believes that nonrecourse sales of vendee loans can provide market-based estimates of the subsidy costs of that form of credit assistance.

STATEMENT OF THE
HOUSTON ADVISORY COUNCIL TO VETERANS ADMINISTRATION
PROPERTY DISPOSITION
TO THE
SENATE COMMITTEE ON VETERANS AFFAIRS
FOR
THE OVERSIGHT AND LEGISLATIVE HEARING
ON
JUNE 17, 1987

Mr. Chairman and distinguished Senators:

The Houston Advisory Council to Veterans Administration Property Disposition wishes to thank you for considering our views on the VA home loan guaranty program.

In late April of this year, four of the eight delegates to the Council flew to Washington to spend a week lobbying for additional staff and funds for the Houston VA Regional Office. Chairwoman Loraine Allison spoke before the House Subcommittee on Housing and Memorial Affairs on April 22, 1987, outlining the crisis in the Houston Region and our taxpayers' increasing loss due to stagnation of that property sales program. Attached is a copy of that report (see pp. 1-19 HCR) along with an update of recent developments since our April trip (see pp. 2-3). We respectfully request that the entire report and the update be entered into the records.

Council also wishes to submit its views, in brief, on a number of other legislative initiatives and general areas regarding the home loan guaranty program nationwide (see pp. 4-7).

Update on Houston VA Regional Office Loan Guaranty Section

Since the Houston Advisory Council's appearance before the House Subcommittee on Housing and Memorial Affairs on April 22, 1987, a crisis has emerged of an even more urgent nature than had already existed. A huge backlog of accepted offers to purchase, 2100 in number, has accumulated and is waiting to be processed. There are only seven loan specialists to handle these 2100 cases and based on their March productivity in processing loans, Council estimates approximately five to six months will be required to process these loans. In late May the Advisory Council urged the Regional Office to request temporary help from the VA Central Office from other VA Regional offices. We recommended 30 loan specialists for one month be brought in immediately. VA Central Office responded by sending eight loan specialists for two weeks, stating that this was all that could be spared. To date, 1400 of these loans remain to be processed and buyers will soon begin to forfeit earnest money and cancel their offers rather than wait months longer to close on the properties. This will undermine the good will to the buying public and the sales force which Council has been urging the Houston Regional Office to place as the first priority toward increasing sales.

The Advisory Council has been at work for over nine months and we believe by the end of our first year as a Council, sales will have met or exceeded our goal of 600 properties per month, a 300% increase! The first public bid opening, a system Council has fought hard to put into place, will be held July 2, 1987, in Houston!

Council has already begun to see the success of our efforts to increase sales, but without adequate staff, equipment, furnishings, and funds for overtime and contract labor, our sales efforts will be in vain.

Progress is being made in some of these areas. A new computer network is being installed and programmed to handle property inventory. However, the Advisory Council has learned that the computer's capability of cataloguing loan status during loan processing has had to be put on the back burner due to lack of management man hours to develop a program for this function, and lack of funds for computer training, coupled with the overworked condition of the loan specialist staff. The seriousness of Houston's staff shortage is thus underscored when conditions will not permit an office to make use of the modern equipment at its disposal.

The VA Central Office has recently granted the Houston Regional Office its full request for additional funds for overtime, travel, and contract labor for third and fourth quarters of 1987. The advisory Council is encouraged by these funds being made available.

What is still needed in the Houston VA Regional Loan Guaranty Section?

- (A) Minimum of 27 employees (3 to be computer specialists)
- (B) Office furnishings and equipment to accommodate new employees (desks, chairs, privacy screens, additional typewriters, etc.)

Since the Supplemental Appropriations Bill passed recently, we have been told by the VA Central Office that a sizeable allocation of new employee positions is targeted for Houston Loan Guaranty.

The Advisory Council solicits your help, Senators, in giving the Houston Regional Office the long-overdue boost it needs to survive and, not to just survive, but to succeed.

IHCR

STATEMENT OF THE
HOUSTON ADVISORY COUNCIL TO VETERANS ADMINISTRATION
PROPERTY DISPOSITION
BEFORE THE
HOUSE SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
BY
LORAIN ALLISON, CHAIR
HOUSTON ADVISORY COUNCIL TO VETERANS ADMINISTRATION
PROPERTY DISPOSITION
APRIL 22, 1987

INTRODUCTION

Madam Chairwoman, Distinguished Congressional leaders, and guests:

My name is Loraine Allison. I am a realtor from Houston, Texas and Chairwoman of the Houston Advisory Council to VA Property Disposition. On behalf of the more than 9,000 real estate professionals in the four organizations comprising this advisory council, I want to thank you for the opportunity of presenting our views on the problems of the Loan Guaranty Office in the Houston VA Regional Office, and specifically the urgent need for additional staff and equipment in the Property Disposition Section.

Our Advisory Council was formed eight months ago at the request of many concerned real estate professionals in Houston who are VA approved brokers and agents. The real estate

2HCK

organizations comprising the council are:

The Houston HUD Brokers Association

The Houston Real Estate Association

The Houston Board of Realtors

The Houston Hispanic Brokers Association

It is important that you know that, though we are officially recognized by the VA Central Office as an advisory council and work with the Houston Regional Office toward common goals, we are completely independent of the Veterans Administration. Our time is volunteered and we are in absolutely no way funded by the VA. The council cherishes this separate status for it gives us total freedom in reaching decisions as to our recommendations. We meet weekly for planning sessions and monthly with the administrative staff from the Houston Regional Office.

ADVISORY COUNCIL GOALS

The Houston Advisory Council made a serious commitment eight months ago, when it was formed, to increase sales by at least 300 percent from approximately 200 sales per month to a minimum of 600 sales per month. To this end, we have produced a thorough pricing study and a complete management study, had a computer consultant make a study of the computer equipment needs of the Houston VA office and had a panel of experienced real estate attorneys assist in recommending guidelines for certain new sales closing procedures. We have recommended weekly educational seminars to teach sales brokers the sales procedures of the VA

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program, and to this end we have procured a centrally located meeting space for up to 300 guests, at no cost. This is the fourth trip to Washington Houston real estate brokers have made to discuss the urgency for change in the Property Management program in Houston in the past year and, in addition, we have met in Houston on three occasions with staff from the Central Office of the Veterans Administration. As a result of our efforts, 15 major recommendations have been submitted by the council concerning the sales and management in Houston.

THE PROBLEM: STAFFING AND BUDGETARY SHORTAGES

The Houston Regional Office has, as far as its budgetary limitations have allowed, attempted to implement as many of our recommendations as possible. But the key word here is "limitations" and that is why four of the eight delegates to the Advisory Council have flown to Washington this week to meet with you. We implore you, ladies and gentlemen, to assume a position of encouraging the Veterans Administration Central Office to act immediately to assign additional staff, office equipment and furnishings, computer equipment and funds for overtime and contracts beyond what is now allocated for Fiscal Year 1987.

Houston's economic woes, due to the depressed oil industry, are a frequent topic for the press, so I feel certain that you are aware of the high volume of foreclosures flooding the Houston VA Regional Office. Though the geographic boundaries of the region encompass a large portion of South Texas, including Corpus

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Christi and San Antonio, the vast majority of the properties in the region are located in the greater Houston are. Historically, about 70% of all loan guarantee activity for the Houston VA Regional Office has taken place in the greater Houston Area. Currently, the Regional Office has title to 4,817 single-family properties and has another 1,737 properties pending aquisition. Properties are being foreclosed on and title conveyed to VA at a rate of 356 properties per month, over the past twelve-month period. Last month, March of 1987, 483 properties came into inventory. Please refer to Page 9 and review the graph for the number of vacant VA properties waiting to be sold each month in our city. You will notice that the total number is growing and, of course, this means that sales are not keeping pace with acquisitions.

As real estate professionals, as concerned citizens and taxpayers, the brokers and sales agents in Houston are gravely concerned about this trend. Let us be crystal clear in relating the "bottom line." The rate of forclosures sales by the Houston VA Regional Office is very low (289 sales closed in March, 1987) compared to sales of HUD forclosures (497 sales closed in March, 1987) and other real estate owned properties and regular resale properties in Houston (2,280 sales closed in March, 1987). Why is this so? Not because there are not buyers. Not because there is no competitive, enthusiastic sales force. It is because, ladies and gentlemen, the program is "ham-strung" with inadequate computer equipment, staff and money for its work load. Properties sit vacant, often prey to vandals and certainly

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physical deterioration, becoming more of a liability to their neighborhoods and the economy each month. Of the total available inventory, 1,740 properties have been on that list, and available for sale, for over one year. This, at a time when the Houston homebuyer market is at a fever-pitch with record sales being reported by other property programs.

THE TAXPAYER DOLLAR LOSS

Millions of taxpayer dollars are being needlessly wasted on "holding cost" to manage vacant properties and pay the taxes on them. The Advisory Council, using data we requested of the VA Regional Office, has established that the dollar loss on the properties currently in inventory, based on a conservative \$18 per day holding cost, is running close to \$20 million and growing every day. That amount of loss to our government certainly stirs us to help rectify the situation and Council is sure this is information our Congressional Leaders want to know in times when the U.S. budget deficit soars. We have buyers eager to purchase VA foreclosures, but the sales and management program in the Houston Office is processing files at a rate so slow as to appear to be moving backwards. The listing of available properties is grossly inaccurate, because the office is forced to manually update the status of properties, instead of inputting such status reports to a computer network. There exists only one Sperry PC computer for the entire Loan Guaranty Section. As a result, the sales force shows and writes offers-to-purchase by

6 HCR

the hundreds each month on properties which are listed in error. The waste of time is a stinging blow to real estate professionals. Offers which are accepted for loan processing have to be handled so hastily that many times simple credit questions seem too time-consuming to pursue and the VA loan specialist rejects the buyer and relists the property for sale, feeling she cannot afford the time of aggressively seeking the additional credit history needed to approve the loan; and so the cycle continues.

RECOMMENDED SOLUTIONS

Attached (Exhibit A) is the Advisory Council's computer equipment recommendations as per our computer consultant, dated, October 16 and November 13, 1986. The VA Central Office is currently working to provide \$6,200 towards to purchase of software to augment and update the computer equipment in the Houston Office. The staff of the Houston Office and the agents and brokers in Houston are elated over this development. We sincerely hope this will be an adequate funding to buy all of the equipment recommended.

Also attached (Exhibit B) is a copy of the Regional Office's own assesment of their needs as to staffing, computers, and funds, dated, October 15, 1986, as submitted by Houston Regional VA Director, Mr. Ted Myatt. Since that memo, a total of ten additional personnel positions have been granted by the Central Office; six to the Property Management Section and four to the

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Loan Service and Claims Section. This leaves 24 positions still needed. The Council concurs with the Regional Office's assessment of staffing needs and makes an additional recommendation that three highly trained and experienced computer processors be employed as permanent positions. It would be a travesty if the requested equipment is granted but is not able to be effectively employed due to a lack of computer expertise. Houston's staff handles an average of 148 properties each, as compared with 92 properties per person as a national average. These are very telling statistics. The workload is overwhelming for the Houston staff.

As to funds requested for over-time and contract labor the Council is satisfied that the Regional Office's request for \$20,000 per quarter is reasonable and probably a bit conservative.

Conclusion

Madam Chairwoman, the Houston Advisory Council respectfully requests the help of these Sub-Committee members in granting the following additions to the Houston VA Regional Office:

	<u>Estimated Cost</u>
A) 27 additional FTE.....	\$585,000/year
B) Computer equipment as itemized on Page 6.....	7,000
C) \$20,000/quarter over-time/contract money.....	80,000/year

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The total cash outlay from VA for all items requested for one year will most likely be under \$700,000. Compare this to the current and mounting loss of close to \$20 million in holding costs (a figure which does not even include physical depreciation and loss due to vandalism) and we believe the investment we are recommending would be a prudent one.

Thank you for the opportunity to present our concerns.

Lorraine Allison, Chair
Advisory Council to VA Property Disposition

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HOUSTON VA REGION:

TOTAL NUMBER OF PROPERTIES IN INVENTORY



[EXHIBIT A]

10HCR

October 6, 1986

RE: VA Property Disposition Data Processing

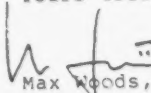
Ms. Loraine Allison, Chairperson
VA Advisory Council to VA Property Disposition

Dear Ms. Allison,

Enclosed please find a summary of my understanding of the current situation with regard to the data processing requirements of the VA Property Disposition Branch, Veterans Administration, Regional Office, Houston, Texas. I stress that this report is cursory in nature, and that a more detailed study would be required before formal recommendations as to a possible solution could be made. However, I have the conviction that any solution will be fundamentally along the path indicated in the enclosure.

I enjoyed the time I spent visiting the facility and the time spent in preparing this report. I feel sure that the work of the Advisory Council is mandated by the need to speed up processing, and I am privileged to be able to help in any way.

Yours truly,


Max Woods, II

MW/yr

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This report intends to outline my findings with reference to a recommendation to be made to the VA Property Disposition Branch, Veterans Administration Regional Office, Houston, Texas.

The existing system, an IBM compatible machine with a printer and with telephone data transmission capability, is in my view inadequate to significantly speed up the processing of inventory. The primary reason for this inadequacy is because the amount of data is much greater than can be managed by a system which uses floppy diskettes for main storage. A Winchester hard disk storage system is needed. The existing system could be upgraded to supply this function.

If a more major upgrade is contemplated, a multi-user system is preferable to the existing single-user system. This would allow desk terminals to be installed, which would be in instant and constant communication with the central computer, allowing the Realty Specialists to directly input inventory and listing data. This information would be able to be accessed not only within the office, but also by the advertising medium, the Multiple Listing Service, and other interested parties.

It cannot be too strongly emphasized that there is one very strong feature of the existing system. That feature is custom software developed by an in-house programmer in dBase III. Too often, computer people want to start from scratch, ignoring the investment, not only in time but in understanding, that has already been made. In my view, any new system which ignored the working programs already developed would not serve as well as a system which could run those programs. I know of at least two major manufacturers which have excellent multi-user systems that could take advantage of the work already done.

Finally, I believe that only people, and not computers, solve problems. Computers are only a productivity tool. Regardless of the equipment solution, it must be used, and personnel must be trained and motivated to take advantage of the new system in order to increase production and provide a good working environment.

A well planned multi-user system with adequate storage will not meet the requirement, but such a system with proper retraining of the user personnel will.

12HCR

November 13, 1986

RE: Property Disposition - Computer Recommendations

Ms. Lorraine Allison
VA Advisory Council to
VA Property Disposition
Houston, Texas

Dear Ms. Allison:

This report is further to my evaluation of the computer needs of the VA Property Disposition Branch, Veterans Administration Regional Office, Houston, Texas.

After careful consideration of the data to be processed, a need for "headroom" in the computer to allow growth, and the depth of the developed software and in house programming ability, I recommend a "supermicro" computer based around the UNIX operating system.

The MSDOS operating system which drives the IBM PC family of computers and which is implemented currently is, in my view, inadequate for the need. A Local Area Network could be implemented, but the challenges of a distributed data base presented here are sufficient to mandate a true multi-user system with the sophisticated file handling that UNIX offers. I refer specifically to the UNIX command LINK (1M), which can be used to insure that each user has a current version of any dBase II data file in use. Other UNIX utilities which would prove invaluable include a sophisticated line-printer spooler (allowing efficient use of printer resources) and excellent terminal and communication facilities to allow exchange of information with outside databases as required and permitted.

A number of high quality manufacturers offer UNIX systems. Three among them are: 1) NCR, 2) AT&T and 3) Sperry. The only manufacturer I know which offers dBase II on a UNIX engine is AT&T, in the 3B2/400 Model. It can drive up to 40 I/O devices and should comfortably drive 20 under a heavy load with little degradation. Other manufacturers may possibly be located with dBase II ported to run. There are several good UNIX systems with "friendly" menu-driven interfaces to the operating system.

Another distinct advantage to these systems is the ability to expand primary storage (hard disks). Some implement the SCSI protocol and can be expanded to hundreds of megabytes.

I see an immediate requirement for twelve terminals, six each for the underwriting and management sides. I would recommend two

13HCR

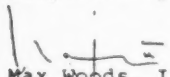
VA Advisory Council
November 13, 1986
Page 2.

high speed letter quality printers (parallel), perhaps three. The cost of terminals is much more reasonable than in the past. Such features as Soft Setup are common even among economical models.

I have not researched the telephone transmission problem sufficiently to permit a recommendation. Any modern computer of the type discussed above will be compatible with a number of modems and ACU'S.

I have enjoyed working on this requirement and with the board. Please let me know if I may assist further.

Respectfully,



Max Woods, II
P. O. Box 266492
Houston, Texas 77207
(713) 931-1870
(713) 759-1707

14HCR

Regional Office

2515 Murworth Drive
Houston, TX 77054

[EXHIBIT B]

Veterans
Administration

OCT 15 1995

In Reply Refer To 362/00

Deputy Chief Benefits Director
for Field Operations (201/203)
VA Central Office
Washington, DC 20420

SUBJ: DVB Property Sales Goals

1. The recently announced department property sales goals present this Regional Office with a most difficult challenge. Since our inventory is now more than double that of the next highest Regional Office, we recognize the importance of an all-out effort on our part to meet the goals. Whether we like it or not, close attention will likely be focused on our performance by those at the highest levels of the Agency as well as interested members of the legislative branch.
2. While we welcome such a challenge, prudence requires that we present to you a realistic assessment of our situation. We are now in the process of organizing our efforts which we have made the principal station goal for FY 87 (stations goals are enclosed). There are both positive and negative factors present in our situation. On the positive side, we now have our new Loan Guaranty leadership team intact. As you are aware, Loan Guaranty lost heavily in terms of senior leadership in the early out retirements of last summer as well as regular optional retirements previous to that. We believe the new team has both the determination and ability to furnish the proper leadership. We also see progress in terms of welding together a property management team. Heavy turnover in the technical and clerical ranks in the last three years has left a less than experienced group. Accelerated training and leadership are in the process of curing this deficiency. We also see as a positive factor the Division's campaign to change basic attitudes regarding close cooperation with sales brokers in the Houston area. The Advisory Council, newly formed under Central Office auspices, seems destined to furnish excellent support in this area.
3. The overriding negative factor present is the record breaking foreclosure rate which produced/average acquisitions of just under 500 monthly during FY 86 for a total inventory of 6200. With sales during the same period averaging just under 200 monthly, an inventory of 10,000 properties by the end of the fiscal year is quite possible if major changes do not come. There are no predictions for an early easing of foreclosure problem.

15HCR

2.

Deputy Chief Benefits Director for Field Operations (201/203)

4. In the face of this massive work overload, this Regional Office stands with completely inadequate resources to even approach the desired goals. While there is much that can and should be done through management efforts, we respectfully submit that the "bottom line" is resources. Any assessment of resource needs must begin with FTE. We fully appreciate the scarcity of FTE available to the Department. However, without FTE help, we conclude there is no hope for dramatic improvement in the Houston situation. The station has shifted all available help from other areas of its operation. Regrettably, we have just been notified by Central Office of a revision in the distribution of .001 funds. In terms of FTE, it appears that we can now support a cumulative ceiling of 389 for FY 87, rather than the 402 which we had projected under the original funding. Of this 389, 109, or 28%, will be assigned to Loan Guaranty. This figure does not take into account the numerous details of personnel to Loan Guaranty during the past two years. To go further, in our judgment, would seriously jeopardize the other areas of our operation.

5. We conclude that 34 additional FTE are necessary if the station is to make the necessary progress toward the goals. These positions would be allocated as follows:

Property Management Section

<u>Now</u>		<u>Proposed</u>
3	Supervisory	3
10	Realty Specialist	20
8	Loan Specialist	12
1	Title Clerk	3
<u>11</u>	Clerical	<u>20</u>
33		58

Loan Service and Claims Section

<u>Now</u>		<u>Proposed</u>
2	Supervisory	3
12	Loan Service Representative	16
6	Loan Assistant	6
6	Claims Clerk	6
<u>14</u>	Clerical	<u>18</u>
40		49

16HCR

3.

Deputy Chief Benefits Director for Field Operations (201/203)

We would propose a two-fold effort -- reduce acquisitions through enhanced servicing techniques and procedures and increase sales through intensified property management efforts. Both approaches are considered essential to our meeting the property sales goals.

6. The above cited proposal would drop the ratio of assigned properties per available PM FTE from 209/per employee to 103/per employee which is only slightly above the national average. More importantly, it would place 14% of DVB available Property Management FTE to manage 16% of the national inventory. We believe this to be in line with the workload now occurring in Houston.

7. We recognize there would be no "overnight miracles" even should it be possible to obtain the FTE requested. Recruitment through the OPM processes is laborious and sometimes inadequate, particularly for technical types. Further time is required for training and bringing new people to full productivity. We believe we are just beginning to see the full benefit of the additional FTE added by the Department last spring. However, many of the lessons we learned from that experience can and will be employed to cut this lead time. An additional method which might be considered if budget considerations permit is DVB recruitment nationwide for experienced and qualified technical personnel with relocation expenses authorized. At the very least, the addition of such FTE would enable Houston to make significant progress toward the goals during the current fiscal year and provide a solid base from which to achieve the goals in subsequent years.

8. In addition, we submit for your consideration other recommendations which we deem important in dealing with this situation.

a. Overtime and Contract Money -- Once the budget situation is resolved, the need exists for additional overtime funds in the amount of \$12,000 per quarter. Overtime must be used judiciously since overuse makes it far less effective. Nevertheless it is an additional tool to be employed. We have received much benefit from contract help. We have the sources to further expand this if funds become available. We estimate that we could usefully commit \$20,000 per quarter in additional contract money beyond what is projected in our fiscal plan.

b. Computer Equipment -- Further automation of labor intensive loan guaranty procedures is a compelling need. For example, the ability of our PM employees to adequately track the 1000+ offers received monthly is severely limited by the manually maintained reporting and record-keeping now required. A properly used system would enable each loan underwriter or assistant to determine the status of any offer, scheduled closing date, or any additional information, by calling up information on the desk CRT. We estimate our needs as follows:

17HCR

4.

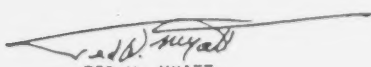
Deputy Chief Benefits Director for Field Operations (201/203)

- 1 Multi-use personal computer with printer and
8 - 10 desk terminals for loan underwriters and
offer processing (PM)
- 1 Personal computer with printer (LS&C)
- 1 Credit terminal (PM)
- 6 Target units (3 PM, 3 LS&C) (New master unit will also be
required)
- 2 Target printers

9. It is recognized that this submission may be viewed as a "wish list" expressing the ideal rather than what is attainable on a practical level. We do not believe that the needs are inflated but are reasonable estimates. We think they demonstrate graphically the kind of commitment that must be made if Houston is to make acceptable progress toward meeting the Department goals. We hope, at least, that this report will serve as a basis for discussions concerning the Houston situation and what assistance might be appropriate.

10. We are also enclosing a recent statistical compilation from the Houston Loan Guaranty activity which may be useful in examining the problem.

11. We shall appreciate any consideration and advice.



TED W. MYATT
Director

Enclosures

OO TWM:jb

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STATION GOALS

FY 1987

1. Intensify Loan Guaranty Property Sales efforts to support Department Goals.
2. Imaginatively utilize Wang to improve our overall service to the veteran.
3. Accomplish renovation of Murworth Building in conjunction with new lease.
4. Carry out move of San Antonio office to new quarters in the Audie Murphy VAMC area.

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LOAN GUARANTY STATISTICAL
ACTIVITY FY83 - FYTD

As of September 30, 1986	<u>FY83</u>	<u>FY84</u>	<u>FY85</u>	<u>FY86</u>
Appraisal Requests	41,736	30,783	32,478	43,391
Appraisal Foreclosure Requests	3,824	5,337	9,109	13,634
Loan Closings	17,429	10,447	13,928	13,191
Liquidations Completed	3,377	4,430	6,043	5,865
SI Loan Claims	1,195	2,304	3,336	5,088
Defaults Reported	Unavailable	12,891	13,843	17,442
Defaults Pending	6,692	8,709	11,682	14,191
<u>Property Inventory:</u>				
Pending Acquisition	373	658	1,568	1,656
In Title & Pending Acquisition	1,330	2,343	3,361	6,186
Acquired	1,650	2,094	2,876	5,734
Sales	839	1,096	2,172	2,359

EMPLOYEE LEVELS

Houston Regional Office (HRO)	71	85	85	93
San Antonio Office (SAO)	28	24	19	18
Total	<u>99</u>	<u>109</u>	<u>104</u>	<u>111</u>
<u>Office of Chief</u>				
HRO	4	3	4	4
SAO	3	3	2	2
Total	<u>7</u>	<u>6</u>	<u>6</u>	<u>6</u>
<u>Construction & Valuation Section</u>				
HRO	16	15	12	13
SAO	15	10	8	7
Total	<u>31</u>	<u>25</u>	<u>20</u>	<u>20</u>
<u>Loan Processing Section</u>				
HRO	13	8	8	6
SAO	8	7	6	6
Total	<u>21</u>	<u>15</u>	<u>14</u>	<u>12</u>
<u>Loan Service & Claims Section</u>				
HRO	25	32	34	37
SAO	2	4	3	3
Total	<u>27</u>	<u>36</u>	<u>37</u>	<u>40</u>
<u>Property Management Section - HRO</u>	12	24	29	33

HOUSTON ADVISORY COUNCIL RECOMMENDATIONS
CONCERNING LEGISLATIVE INITIATIVES
S.9, S.290 AND H. CON. RES 79
AND OTHER TOPICS REGARDING THE
HOME LOAN GUARANTY PROGRAM

S.9, Section 6 - Increase in maximum guaranty from \$27,500 to \$36,000.

The Advisory Council is in favor of this proposed increase:

- (A) because inflation has made \$27,500 amount insufficient to cover even 20% of property value in many parts of the nation.
- (B) because this increase will be beneficial to veterans in more satisfactorily guaranteeing lenders against loss and consequently insuring that veterans will continue to find lenders willing to make VA guaranteed loans.

S.920

Council is opposed to removal of the expiration date for the "no bids" formula contained in Section 2512 of the DRA of 1984. Council dislikes the "no bids" concept and recommends it be allowed to expire for these reasons:

- (A) VA has, in the past, made a profit on the sale of foreclosures in a rising market and will be giving up an opportunity for this source of funds.
- (B) The "no bid" system threatens to eliminate the veterans' housing benefits completely. VA's "no-bid" system saddles the lender with the risk of loss above the guaranteed amount if that lender cannot sell the property for enough to cover the difference between the loan balance at the time of foreclosure and the guaranteed amount. Lenders are already finding it more and more difficult to sell VA guaranteed paper to the secondary market. Council believes "no-bids" will take away the veterans' source of home loans in a short period of time because investors on the secondary lending market will find themselves in possession of properties thousands of miles away from their headquarters and will face unwanted complications in disposing of these properties.

S.920 - Elimination of the fixed interest rate on VA-guaranteed loans.

- (C) This is another lessening of benefits to our veterans. Prior to "no bids" system the VA loss was the actual (real) difference in the proceeds of the sale of the foreclosed property and the guaranteed amount. With "no bids" VA takes an automatic loss of the full guaranteed amount so the veteran is automatically saddled with a deficiency judgment for the full guaranteed amount, even if the lender sells the house for a profit. The government will then garnish his wages to obtain the judgment amount.

In addition, the poor veteran is then forgiven the amount of additional loss the lender takes and thus must pay taxes on this amount as though it were a profit. And all of this happens to a veteran who in most cases was caught in an economic downturn in his area of the country, such as is occurring in Houston, Texas at this time, and had to lose his home to foreclosure due to no fault of his own. Council abhors such severe punishment of our veterans, who served our country and who deserve true "benefits" as a meager reimbursement for their military service.

S.920

Council is opposed to elimination of the fixed interest rate:

- (A) Council's first thought is "why fix something which isn't broken?" We believe the VA fixed interest rate is working beautifully and benefits the veteran, as is the intention of the Veterans Guaranty Home Loan Program.
- (B) It is a false assumption to think that the veteran suffers because the seller must pay the discount points (not the veteran) and often passes this cost on to the veteran in terms of a higher purchase price on the property. What the veteran has gotten is a lower interest rate than he otherwise would have bought if he had paid the discount points himself. So if he agrees to a slightly higher purchase price his payments are still no higher than they would have been. The current VA fixed rate system works and the discount points allow the market to work in a natural, unrestricted manner. If the veteran is forced to shop the mortgage market without a fixed rate that veteran will be faced with the same problems with lenders that non-veterans currently face, where loan commitments are made to run out when a lender finds it advantageous. Veterans deserve the benefit of a fixed interest rate which is not threatening to expire. This is another benefit which should not be taken away.
- (C) The VA fixed rate is a vital stabilizing force on fluctuating rates. Without it, interest rates in general will increase dramatically and will swing more violently up and down, creating instability in the entire economy. The veteran will be a victim of this roller coaster ride as well as all other home buyers in America. Lenders have always known that they had a more secure loan when it was VA guaranteed than with private mortgage insurers, and were willing to accept a smaller yield in return for less risk. Now amendment S.920 would in effect let the lender have the most secure loan available and high profits from the loan, also. This does not seem shrewd negotiating on the part of the Veterans Administration. Council strongly opposes elimination of the fixed interest rate for VA guaranteed loans.

- (D) In reality, when the level of discount points being charged by lenders for a certain interest rate reaches about 5 pts., VA adjusts the rate, so this never gets too far out of hand anyway.

S.920 - To authorize lender review of appraisals.

Councils favors this idea as a time and money saver. This part of the FHA direct endorsement program is working successfully and should be adopted by the VA program.

S.920 - To increase the number of VA-acquired foreclosed properties which must be sold on a cash rather than vendee loan basis.

The Advisory Council is strongly opposed to increasing the number of cash sales required and thus reducing the number of vendee loans.

- (A) VA loses money because properties for cash always bring much lower prices than properties offered with financing. This will deplete the Revolving Fund dramatically.

Without attractive financing through vendee loans, VA loses a very important advantage which they now have over competing resale programs and will be left falling short of the competition in areas such as property condition. VA will then either have to get heavily involved in rehabilitating its foreclosures or reduce prices and take a further loss.

H. Con. Res. 79 - Expressing the sense of the Congress that the one-percent fee imposed on VA-guaranteed home loans should not be increased.

The Advisory Council agrees with this resolution. We strongly oppose any increase in the one-percent fee as this again will result in the taking away of benefits from our veterans. It will be passed along as increased cost to the veteran in obtaining a home. And in the case of vendee loans, an increase in the one-percent funding fee would hurt the sales program drastically since buyers would have to come up with much more cash at closing. (Remember that most foreclosures are in depressed economic areas, where people have less ready cash.

The Administrations's proposed sale of loans on a non-recourse basis.

The Advisory Council feels this idea is very poor. No secondary market lender will be interested in buying this paper, as demonstrated by the pitifully low offers recently made (the highest offer being for 67% of offered price and the lowest offer being for 15%) on \$900 million worth of non-recourse loans.

Proposal to require assumption be subject to credit approval:

Council strongly opposes this measure. Texas savings and loans who have had this policy are going bankrupt. Any payor is better than no payor in a distressed economy.

Proposal to limit the percentage of property value available for refinance.

Council is opposed to limiting the percentage of property value for refinance.

Proposal to require veterans to certify their intention to occupy the property after refinancing.

Council is in favor of this proposal.

VA Policy and Practice pertaining to forbearance.

Council favors this and recommends wide-spread dissemination of the availability of this procedure to veterans. In distressed economic areas such as Houston, we encourage further extension of forbearance. Refinancing at lower interest rates at no cost to the veteran should also be used to help veterans hang on to their properties wherever possible. This refinance program and forbearance procedures should be offered on VA vendee loans.

Improvement in the VA's marketing and disposition of foreclosed properties.

The public bid opening program as designed for VA by the Houston Advisory Council should be used nation-wide to sell VA foreclosures. The Council recommends VA establish Houston as the pilot-program.

Thank you for the opportunity to present our views.

The Advisory Council to VA Properties
Loraine Allison, Chairwoman
Phone: (713) 266-1443

United States General Accounting Office

GAO

Testimony

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VA's Home Loan Guaranty Program

Statement of
John H. Luke, Associate Director
Resources, Community, and Economic
Development Division

Before the
Committee on Veterans' Affairs
United States Senate



Mr. Chairman and Members of the Subcommittee:

We appreciate this opportunity to provide information on the Veterans Administration's (VA's) Home Loan Guaranty Program. As you are aware, on May 13, 1987, we testified on this program before the House Committee on Veterans' Affairs. On June 2, 1987, you requested that we provide a written statement on the information we obtained in performing our work for the House Committee. Specifically, you asked us to

- determine the impact of the Deficit Reduction Act of 1984 on the program,
- evaluate VA's servicing of defaulted loans, and
- determine whether VA's property acquisition and disposition process can be improved to reduce program costs.

In summary, our review to date indicates that based on its implementation of the act, VA has reduced its losses by leaving more properties with lenders. However, the debt of veterans who default on their loans has increased.

The extent of servicing (loan counseling and financial assistance) provided to veterans varied among the offices we visited and none of the offices voluntarily notified veterans of all the financial assistance options available to cure their defaulted loans. Some offices said they did not have adequate staff to provide effective assistance and our review shows that VA does not have a system to determine the number of delinquent loans that can be effectively handled by its servicing technicians.

We found that VA can improve its acquisition practices to reduce losses by avoiding unnecessary delays in acquiring property, encouraging additional bidding at foreclosure sales, and reducing

the costs of obtaining title policies on acquired property. In fiscal year 1986, VA sold nearly 25,000 acquired properties at a loss of about \$356 million.

To accomplish our review objectives, we conducted interviews with loan guaranty officials at seven VA regional offices and at VA headquarters. The VA offices we visited included Portland, Seattle, Denver, Detroit, Houston, Pittsburgh, and Philadelphia. We also reviewed property management and loan servicing records and files and met with Federal Housing Administration (FHA) officials and mortgage bankers to discuss their foreclosure practices. Before discussing our tentative findings, let me briefly highlight the VA program and its associated foreclosure processes.

BACKGROUND

The VA Home Loan Guaranty Program was established by The Serviceman's Readjustment Act of 1944 to assist returning veterans in obtaining housing as compensation for the lost opportunity experienced during their period of military service. The VA is authorized to aid the veteran in obtaining a home by requiring no down payment, providing low interest rates, and guaranteeing the home loan. The current amount of guaranty is limited to the lesser of \$27,500 or 60 percent of the loan amount. As of September 30, 1986, VA had guaranteed about 11.8 million home loans since the inception of the program and about 4.1 million loans were outstanding.

According to VA, in fiscal year 1986 about 74 percent of the 351,242 loans guaranteed that year were made without a down payment from the veteran purchaser. These no down payment loans had an average purchase price and loan amount of about \$66,100. For those veterans who obtained loans with a down payment, the purchase price averaged about \$92,000 with an average loan amount of about

\$80,500. Thus, these veteran purchasers made a down payment of about \$11,500 or about 12.5 percent of the purchase price.

During fiscal year 1986, lenders foreclosed on over 33,000 VA-guaranteed loans. (See exhibit I.) When a veteran defaults on a loan, VA must decide whether to acquire the property. Prior to the Deficit Reduction Act of 1984, VA, in making this decision, was not required to include certain post-acquisition costs, including repairs, maintenance, security, and taxes. The act, however, required VA to include these costs and limit its losses to the guaranty amount. If VA determines its losses would be more than the guaranty, it simply pays the guaranty and leaves the property with the lender. If VA decides to acquire the property, it attempts to purchase the property for the minimal cost, prepare and list the property for sale as quickly as possible, and sell the property for the best possible price. Mr. Chairman, now I will discuss the effects of the Deficit Reduction Act.

EFFECTS OF THE DEFICIT REDUCTION ACT OF 1984

Our review shows that VA's implementation of the Deficit Reduction Act has resulted in an increase in the debt of veterans who default on their loans. VA calculates the veteran's debt based on the amount of indebtedness the veteran owes the lender, minus the estimated net value of the veteran's property. The act required post-acquisition costs to be included in VA's acquisition decision, and their inclusion has the effect of reducing the net value of the veteran's property. VA also includes these post-acquisition costs in calculating the Veteran's debt, and this has resulted in an average increase of \$2,700 in the veteran's debt.

The act has also resulted in an increase in properties left with lenders. In fiscal year 1986, VA left 5,236 properties with lenders, an increase of 3,735 over the number left in fiscal year 1984. (See exhibit II.)

The results of a Mortgage Bankers Association survey showed that the average loss on properties left with lenders was about \$16,500 during fiscal year 1986. Data provided by VA showed that it anticipated transferring an average loss of \$3,750 on property it did not acquire. (See exhibit III.) In asking the Mortgage Bankers Association about this difference, we were told that its estimated losses were not based on a scientific sample and included interest costs that VA does not include in its calculation. Further, our analysis of the Association's data showed that the average value of sampled properties included in the survey was about \$43,000 higher than the average value of properties on which VA based its estimate. The higher valued properties generally have a greater potential for loss to the lenders because of the limit on VA's guarantee.

MORTGAGE SERVICING

Under VA's Home Loan Guaranty Program, mortgage lenders are required to service their VA loans by providing veterans with adequate opportunity to avoid foreclosure. However, the lender reports the delinquency to VA once the veteran has failed to make three payments on the mortgage loan. VA then takes an active role in protecting the financial interests of the veteran and the government by attempting to cure the delinquency.

We found that the extent of loan servicing varies widely among VA's regional offices. For example, in two of the offices we visited, attempts were made to contact each veteran to determine whether a loan repayment plan could be developed to cure the delinquency. At three of the other offices, however, we were told that the number of staff was inadequate to effectively contact, counsel, and assist the large number of veterans having delinquent loans. Based on the scope and objectives of our review of VA's servicing system, we were not able to determine whether there is a

statistical correlation between the contacts made by VA offices and the cure rate on delinquent loans. However, at the VA offices we visited, we noted that those which had the highest rate of personal contact also had the highest cure rates. (See exhibit V.)

The number of delinquent loans handled by servicing technicians at the offices we visited ranged from 400 to 1500 loans. VA does not have a system to determine the number of delinquent loans that can be effectively handled by its servicing technicians.

According to VA regional officials, they encourage veterans to reach agreement with lenders on how to cure the loans. However, VA usually does not provide information on financial assistance options which VA can provide, unless the veteran is aware of and requests information on these options. VA's financial assistance options include (1) encouraging the lender to reduce the interest rate of the loan, (2) refunding the loan, and (3) assisting the veteran to avoid foreclosure by selling the property. We were told by the Assistant Director for Loan Management that VA has not informed veterans of the latter two options because they might not attempt to cure their loans by reaching repayment agreements with mortgage lenders.

Reducing the interest rate

Many of VA's delinquent loans were made during the high interest rate period of 1982 to 1984. Therefore, an option that VA can sometimes use to cure loans is to encourage the lender to refinance the loans at lower interest rates. Refinancing would provide some veterans with a lower monthly payment, thus increasing their likelihood of staying in the home. However, the VA is not contacting all veterans with delinquent loans to make an assessment on the feasibility of refinancing; accordingly, this option is not being fully utilized.

Refunding

When lenders will not refinance delinquent loans, VA may pay the lender the outstanding loan amount as an option to foreclosure, enabling the veteran to keep the property. VA then "refunds" the loan and establishes a repayment plan based on the veteran's ability to repay the loan. In effect, VA assumes the role of the lender.

The average cost avoidance possible through refunding in fiscal year 1986 was \$14,400 per property. This is based on the average amount of loss that VA incurred on the sale of acquired properties. Our analysis shows that the cost avoidance from one successful refunded loan would be sufficient to offset the additional foreclosure costs to refund six loans that subsequently fail. (See exhibit IV.) According to VA's Assistant Director of Loan Management, refunding has been successful in about 50 percent of the cases in which it has been used. Nonetheless, during fiscal year 1986, VA refunded only one mortgage for every 129 foreclosures.

Assisting veterans to sell their homes

As an alternative to foreclosure, veterans may sell their homes and pay their outstanding loan balances. However, they sometimes need financial assistance to do this because the proceeds from the sale are not adequate to pay both the outstanding loan balance and the selling expenses. VA has a program under which it may provide, in exchange for a promissory note from the veteran, the financial assistance necessary to enable the veteran to sell the property. VA provides this assistance when it believes it is cost effective to do so because the veteran can obtain the fair market value for the property and VA can avoid foreclosure costs.

Again, however, VA does not generally inform veterans that this option is available to them.

VA's ACQUISITION AND
DISPOSITION PROCESS

When VA decides that it is in the best interests of the government to acquire a property, it should minimize its acquisition costs. In fiscal year 1986, VA lost an average of about \$14,400 on the properties it sold. Our review indicates that VA can reduce its losses by (1) seeking to obtain more "voluntary deeds" from veterans in lieu of lengthy and expensive foreclosure actions, (2) encouraging more competitive "third party" bidding at foreclosure sales, and (3) reducing its costs for title insurance policies when it acquires property from lenders.

Voluntary deed in lieu of foreclosure

Voluntary deed conveyance is an expeditious means of terminating a delinquent loan. The veteran voluntarily conveys the property deed and is released from liability to repay the government for any claim VA pays as a result of the loan termination. In so doing, the foreclosure process is avoided and VA is able to acquire the property more quickly and avoid costs, including interest, taxes, and legal expenses.

In fiscal year 1985, VA acquired about 7 percent of its properties by voluntary deed. A report issued in September 1986 by the VA Inspector General estimated that, by more aggressively seeking deeds in lieu of foreclosure, VA could have acquired about 20 percent of the properties through voluntary deeds during fiscal year 1985. The Inspector General estimated that this would have saved VA about \$16 million in acquisition costs, or about \$5,300 per property.

We found that VA acquired only about 6 percent of properties through voluntary deeds during fiscal year 1986. In performing our review, we noted that VA generally does not accept a voluntary deed if it believes that it can collect from the veteran the amount of the claim VA pays the lender as a result of the loan termination. However, at one of the offices we visited, voluntary deeds were accepted if veterans were willing to sign a promissory note to repay the claim. VA should determine whether it is feasible to use this practice in other offices as a means for reducing the debt of veterans and avoiding the considerable expenses associated with foreclosures.

Third-party bidding

VA's acquisition costs could potentially be reduced if more third parties (individuals other than lenders) made successful bids at foreclosure sales. When third parties purchase the property, VA pays the lender the difference between the total indebtedness and the bid price, and avoids both acquisition and post-acquisition costs. We noted, however, that only about 5 percent of foreclosed properties were acquired by third parties during fiscal year 1986.

To increase third party bidding, VA could establish a minimum bid amount that reflects the net amount that VA expects to realize on the sale of property. We found that the minimum bid amount, which is based on the appraised amount less post-acquisition costs, often exceeds the net amount VA realizes when it sells the property. For example, we noted that in fiscal year 1986 the average appraisal amount per property was about 8.5 percent higher than the average selling price per property. This difference could then be factored into each office's determination of the minimum bid amount to encourage third-party bidding.

Title insurance

When VA acquires property, it requires lenders to provide it with assurance of good and marketable title to the property. In April 1986 VA instructed its field offices to obtain title insurance policies from title companies, rather than continuing to analyze title documentation to assure that lenders were providing good and marketable title.

VA decided to obtain title insurance policies, which generally cost several hundred dollars each, because it believed their use would expedite the property-acquisition process. Based on our review, however, title policies have not reduced the time needed to complete the acquisition process. Now, VA officials are considering eliminating the requirement for title insurance policies since they are not achieving their anticipated purpose of expediting property acquisitions.

We concur with VA's decision to reconsider whether to require the purchase of title policies. Further, in the event that VA decides to continue purchasing the policies, it could still reduce its costs by purchasing them for the lowest possible cost. For example, the minimum title policy in Pennsylvania costs \$263 for \$15,000 worth of insurance. However, in fiscal year 1986, VA insured the average property in Pennsylvania for \$27,000, the appraised value of the property, at a cost of \$353.

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In closing, Mr. Chairman, we would like to reemphasize that VA's Home Loan Guaranty Program is experiencing a large number of foreclosures. The foreclosure process is costly for VA, the veteran, and sometimes the lender, particularly in depressed housing markets. Since the Deficit Reduction Act of 1984 has been implemented, VA appears to have accomplished the broad intent of

the act by minimizing its losses within the guaranty amount. However, the losses of lenders who participate in the program and the average debt of veterans who default on their loans have increased. To help reduce these costs, more emphasis should be placed on servicing to prevent foreclosure. Once foreclosure is evident, VA should try to minimize the cost of acquisition.

Mr. Chairman, I have highlighted some areas in which VA can improve its Home Loan Guaranty Program based on our preliminary findings, and this concludes my prepared remarks. We are planning to complete our work and issue a report to the Chairman of the House Veterans' Affairs Committee containing our conclusions on the areas we have discussed. Mr. Chairman, I will be happy to respond to any questions you may have.

EXHIBIT I

VA FORECLOSURE ACTIONS AND LOSSES

	<u>FY 1984</u>	<u>FY 1985</u>	<u>FY 1986</u>
Number of foreclosures	23,377	27,276	33,022
Number of voluntary conveyances	2,178	1,728	1,620
Number of properties left with lenders	1,501	3,059	5,236
Number of refundings	565	635	256
Average loss on acquired property	\$10,784	\$14,715	\$14,391
Average loss ^a	\$11,186	\$15,216	\$15,258

^aIncludes claims paid by VA for properties left with lenders.

Source: Prepared by the General Accounting Office using VA data,
May 1987

EXHIBIT II

VA FORECLOSURE ACTIONS AND NUMBER
OF PROPERTIES LEFT WITH LENDERS

<u>Fiscal year</u>	<u>Foreclosure actions^a</u>	<u>Number of properties left with lenders</u>	<u>Number of properties left as percentage of total foreclosure actions</u>
1981	13,729	358	2.61
1982	17,071	238	1.39
1983	23,349	689	2.95
1984	25,555	1,501	5.87
1985	29,004	3,059	10.55
1986	34,642	5,236	15.11

^aIncludes voluntary conveyances

Source: Prepared by the General Accounting Office using VA data,
 May 1987

EXHIBIT III

EXAMPLE OF DECISION TO LEAVE THE PROPERTY
WITH THE LENDER AND PAY THE GUARANTY

Total indebtedness	\$93,900
Appraised value	\$70,000
Minus holding costs @ 10.5%	<u>7,350</u>
Estimated net VA value	<u>62,650</u>
Loss	\$31,250
Maximum VA guaranty amount	<u>27,500</u>
Loss transferred to lender	\$ 3,750

Because the estimated loss of \$31,250 is more than the maximum guaranty amount of \$27,500, VA would not acquire this property. If VA had acquired the property, it would lose \$3,750 above the guaranty amount. By not acquiring the property, VA transfers the \$3,750 loss to the lender.

EXHIBIT IV
ANALYSIS OF THE INCREMENTAL
COST ASSOCIATED WITH A
REFUNDING FAILURE

Average monthly payment of a refunded loan		\$544 ^a
Average number of months between default and the lender's notice of intention to foreclose	3.4	
Refunding decision period (months)	<u>1.0</u>	
Total ^b		<u>4.4 months</u>
Average loss if a refunded mortgage failed (4.4 x \$544)		\$ 2,394
Average foreclosure loss on property acquired in fiscal year 1986		\$14,391
Success-to-failure ratio (\$14,391 to \$2,394)		1 to 6

^aAverage acquisition value in fiscal year 1986 (\$53,883) at 9 1/2 percent for 30 years and the average monthly tax payment.

^bAccording to the provisions of 38 C.F.R. 36.4318 the refunding decision should be made within 30 days after the lender has notified VA of its intention to foreclose or unless other arrangements have been made with the lender.

EXHIBIT V
PERSONAL CONTACT AND
CURE RATE

<u>VA office</u>	<u>Period</u>	<u>Personal contact</u> <u>rate^b</u> (percent)	<u>Cure rate</u> (percent)
Philadelphia	Oct. 85--Dec. 86	83	89.2
Pittsburgh	Jan. 86--June 86 & Oct. 86--Dec. 86 ^a	66 ^c	31.0
Detroit	Oct. 85--Sep. 86	76	77.8
Portland	Oct. 85--Dec. 86	70	68.8
Denver	Apr. 86--Mar. 87	61	65.5
Seattle	Oct. 85--June 86 & Oct. 86--Dec. 86 ^a	60	60.0
Houston	Oct. 85--Sep. 86	33	54.5

^aData was not available for July through September 1986.

^bTelephone, financial counseling, field visit or office visit.

^cOur review showed that VA's Pittsburgh Office was attempting to personally contact each delinquent homeowner. However, according to the loan servicing supervisor, the personal contact rate indicated above should have been much higher because one servicing technician was not coding his contacts into the computer system.

Source: Prepared by the General Accounting Office using VA data,
 May 1987

Written Testimony
to the Committee on Veterans' Affairs
Senate of the United States
Submitted by Jack Paulson, President
California Association of REALTORS®
June 15, 1987

As President of the California Association of REALTORS®--a statewide trade association representing 115,000 real estate licensees in California--I am grateful for the opportunity to present our perspectives on current legislation, program-wide concerns, and administrative issues confronting the Veterans Administration's home mortgage program. This commentary is submitted in conjunction with, and in support of, the testimony presented by the National Association of REALTORS®. The business activities of our membership involve the brokerage of real property as well as assisting buyers in the process of locating financing sources. It is this business thrust of our members and their involvement with government housing agencies such as the Veterans Administration that motivates C.A.R.'s active interest in these issues of vital concern to California's homebuying veterans.

I. Introduction

Nineteen-eighty-six proved to be one of the most turbulent years that the VA has experienced since its inception in 1944. Lending activity for FY 1986 reached record levels as the agency guaranteed 307,747 loans nationwide, of which 37,928 were made in California. The total dollar volume came to \$22 billion, up 194 percent from FY 1985. In the current fiscal year, demand for VA loans has remained strong, spurred by continued low interest rates and more restrictive underwriting criteria in the conventional market. However, just as the agency has experienced a surge in demand for its services, it has concomitantly come under sharp attack by forces seeking to curtail its effectiveness in providing affordable mortgage credit to veterans. C.A.R. is deeply concerned over efforts to restrict or reduce the agency's ability to assist veterans seeking housing. The VA is a vital agency from which veterans receive much needed assistance; however, recent staffing shortages and administrative procedures have served to restrict the effectiveness of VA home mortgage financing in the California marketplace.

In conjunction with the FHA home mortgage program, the VA has played an important role in assisting the California veteran homebuyer. As private lenders and secondary market investors have substantially tightened underwriting guidelines over the past two years, the FHA and VA programs have stepped in to provide thousands of homebuyers their only viable source of affordable mortgage credit. According to C.A.R. data, the FHA/VA share of newly-originated first mortgages in California increased from 16 percent in 1984, to 20 percent in 1985, to nearly one-quarter in 1986,

despite the statutory loan limits that restrict the usage of FHA and VA mortgages in the high cost California market.

The state's high home prices have consistently outpaced national home prices for the past 15 years, and by the end of 1986, the median price for a house in California was 60 percent higher than the nationwide median. These high home prices have sharply boosted income and downpayment requirements, making homeownership extremely difficult for California veterans, particularly first-time buyers. In 1986, fully 56 percent of all newly-originated VA loans in California went to first-time buyers, while nearly 40 percent of VA borrowers relying on the program's no-downpayment feature. The median loan-to-value ratio on new VA loans in 1986 was nearly 97 percent. VA borrowers also took advantage of interest rates that were 0.75 percentage points lower than on conventional loans. In addition to the higher cash demands brought on by the state's high home prices, the typical veteran homebuyer faces a lower cash inflow. In 1986 the median income for the VA buyers in California was \$13,000 less than for buyers using conventional financing. This difference may even be larger today. Partly as a result of California's increasing home prices, the median household income of California's 1987 homebuyers using conventional financing is expected to be significantly higher than that found in 1986.

Newly-Originated Conventional vs. VA Mortgages: 1986

Characteristic	Conventional	VA
Median Interest Rate	10.25%	9.5%
Median Loan Amount	\$118,020	\$103,000
Median Sales Price	\$149,997	\$107,000
Median Downpayment	\$ 30,800	\$ 5,000
Median Loan-to-Value Ratio	79.9%	96.6%
Proportion of First-Time Buyers	34.5%	56.1%
Median Annual Household Income	\$ 52,900	\$ 40,000

Source: C.A.R. 1986 Housing Finance Survey

These statistics clearly indicate the vital role that the VA loan guarantee program serves in assisting California's veterans in the achievement of their dreams of homeownership. Given the fundamental importance of the VA program, the Association would like to take this opportunity to comment on current legislative and program-wide issues confronting the VA and its loan guaranty program.

II. Legislative Concerns

A. S. 9's Loan Guaranty Amount Provision

S. 9, one of the bills currently under review by the Committee, is important to our membership for a variety of reasons. Foremost among these is the provision of the bill that would increase the VA loan guaranty limit from the present level of \$27,500 to \$36,000. The guaranty limit has not been changed since October of 1980; in the six years that have passed since 1980, the median sales price of existing single-family homes has risen 29 percent nationally and 34 percent in California. The increase to \$36,000 would thus compensate veteran homebuyers for the inflation that has occurred since 1980.

The increase in the VA loan guaranty limit, as contained in the Senate bill, would dramatically improve the effectiveness of the VA program. This would be especially true for high cost areas such as California. At present, just 30 percent of existing homes sold in California are priced near or below the current no-downpayment VA loan maximum of \$110,000. The proposed increase in the VA loan guaranty loan amount to \$36,000 would boost the maximum VA loan amount to \$144,000. This mortgage amount increase would instantly open up over one-half of the California resale home market to the state's veterans. The increase would vastly improve the ability of the VA program to address the unique needs of the California housing market, and probably in no other state would the increase be as productive as in California. Simply put, the loan guaranty increase contained in S.9 would open up 20 percent more of the California housing market to the state's veterans. More importantly it would provide veterans with meaningful access to housing in the state's costly urban areas. For example, in San Francisco in 1986, the \$36,000 guarantee would allow the VA program to serve approximately 38 percent of the areas resale market. With the \$110,000 cap, only 12.5 percent of homes sold in 1986 qualified for no downpayment VA financing. In Orange County, 47.5 percent of residences would be available to veteran homebuyer with the new, higher cap. With the lower cap, only 20 percent of homes qualified for no downpayment VA financing.

B. S.9's VA "Gramm-Rudman" Sequestration Exemption Provision

C.A.R. also supports Section 8 of S. 9 which would permanently exempt certain VA programs from the "Gramm-Rudman" budget sequestration process. This exemption would apply to the VA housing loan guaranty program. Reducing the VA's exposure to those who wish to use this and other VA programs as "political football" would eliminate the uncertainties and distress caused by potential shutdowns in VA lending resulting from restricted authorization levels and credit availability. In 1986 alone, the VA was threatened three times with shutdowns when its credit authority was reached. Given expectations of continued robust demand for VA loan guaranties throughout the immediate future, the severity of the "Gramm-Rudman" sequestration process places a cloud of uncertainty

over the program again in FY 1987-1988 and into the foreseeable future.

Additionally, estimates have shown that because of the potential loss of fee income, sequestration would decrease the flow of funds into the VA Loan Guaranty Revolving Fund decrease overall federal government income. Thus, although having the intent of decreasing government spending, sequestration of the VA loan guaranty program might have the perverse effect of increasing the federal budget deficit. For these reasons, and because Congress should be spared the necessity of exempting the program annually, the VA Home Loan Guaranty Program should be permanently exempted from the "Gramm-Rudman" sequestration process.

C. VA Loan Guaranty Fee Increase

A key element in the Administration's budget "blueprint" for FY 1988 is a proposal to impose sharply higher guaranty fees on the Veterans Administration's loan guaranty program. The current one percent origination fee for VA loans technically sunsets at the end of the current fiscal year. The Administration's budget proposes legislation that would more than double the guaranty fee in FY 1988 to 2.5 percent--one half percent higher than the Administration's budget proposal last year. This provision is included in section 3 of S.920. Although current budget documents do not call for further out-year increases, C.A.R. expects that future proposals could increase this fee to the FHA level of 3.8 percent by 1990.

This fee increase would negatively impact more than 40,000 veteran homebuyers in California that will depend upon the VA to achieve the dream of homeownership in 1988. For the typical California veteran the guarantee fee increase would amount to over \$1,500, forcing monthly payments up by \$12 or more. The resulting "tax" on California's veteran homebuyers would amount to approximately \$65 million in FY 1988, based on VA's projection of loan activity and assuming California maintains its market share of VA loans at 12.5 percent. The impact of the increase would be to further squeeze many marginally qualified veterans out of the market. For those veterans remaining in the market, the fee increase will enlarge their debt burden if the fee is financed or force them to go into debt with less cash reserves for emergencies if they choose to pay this increase in cash.

In addition to the practical reasons for opposing the proposed fee hike, C.A.R. adamantly opposes any attempts to increase the fee beyond its current level on a philosophical basis as well. Given this program's social importance, we view this proposal as yet another attempt to erode the nation's commitment to homeownership. The VA program, like the FHA, was instituted to provide the nation's returning veteran with housing opportunities, and not with a profit motive to provide income to the United States government. Thus, C.A.R. endorses a long term extension of the current 1 percent guarantee fee. Such an extension would reduce the

uncertainty that a veteran planning to buy a home faces when calculating the financial strain of homeownership. Moreover, it would have the positive ramifications of making the VA less subject to political forces regularly seeking fee increases that only minimally enhance the Administration's deficit reduction priorities. The VA program is an entitlement program, one that was conceived in the spirit of recognition, honoring the sacrifices of our nation's veterans. It should not be used as a tool to help reduce the budget deficit. As such, C.A.R. strongly endorses H.C.R. 79 which would serve to signify Congressional opposition to any Administration proposal to increase the VA loan guaranty fee.

III. Oversight Considerations

A. Assumability Restrictions

It is our understanding that the Committee will discuss the possible imposition of new underwriting requirements on VA loans which are assumed when a veteran sells his or her home. Two possible conditions under consideration are a credit check on the assumptor and the possible imposition of a loan origination fee on those who wish to assume a VA guaranteed home loan. C.A.R. would like to go on record as opposing both these restrictions on the assumability of VA loans.

As with FHA-insured mortgages, the easy assumability of VA-guaranteed loans has been a key feature of the program since its inception. The largely unencumbered assumability provisions of VA loans have served to increase both the attractiveness and marketability of such loans. In periods of rising interest rates (such as we've seen lately), the relatively free assumability of VA-guaranteed mortgages has often enhanced the value of the home. The assumptor (buyer of the property) obviously benefits when he or she can assume the home below current market interest rates. Thus, assumability translates into a benefit for the owner (in this case, the nation's veterans) by increasing the marketability and value of his or her home.

By seeking to impose new requirements on the assumability of VA loans, it must be presumed that a substantial number of VA loan defaults have occurred as a result of assumptions. We have no facts to show that this is the case. Since its inception, the VA program, as currently administered, has worked more than adequately. There seems little reason to change a benefit program that has worked successfully for over 40 years. It should be noted that increased assumability requirements may lead to increased VA foreclosure ratios. Property owners having difficulty repaying their mortgage may not be able to "get out from under" their debt burden as quickly as they could have with the current assumability guidelines.

Specifically, C.A.R. opposes both the requirement of a credit check and the payment of a loan origination fee. If such new underwriting requirements were imposed, veterans could find it much more

difficult to sell their property. Buyers may not want to undergo the expensive, troublesome, and time-consuming burden of a credit check and, additionally, they may unwilling, or unable, to pay a one-half of one percent loan origination fee. It is important to remember that any such fee would be on top of those already charged by lenders for processing an assumption. Differing in name only, a newly imposed loan origination fee would represent a tax on homebuyers that we cannot support. C.A.R. earnestly hopes that assumption requirements for VA-guaranteed loans will not be made any more oppressive and that, as presently, such assumptions will be restricted only in terms of owner occupancy.

B. Negotiated Rates and Points

As contained in Section 2 of S. 920, C.A.R. supports the proposal to repeal the authority of the Administrator of the VA to establish the maximum interest rate which veterans may pay on VA-guaranteed home loans. By allowing this statutory amendment, veterans, lenders, and sellers would be able to negotiate together the interest rate and points applicable to VA-guaranteed mortgages.

C.A.R. supports the deregulation of the maximum allowable VA interest rate out of concern (and because of numerous complaints) that the recent run-ups in mortgage interest rates have substantially reduced both the attractiveness and availability of VA financing. Because of these difficulties, we support this proposal. It would effectively substitute the economic forces of supply and demand in place of the artificial restriction on VA-guaranteed loans.

Our support for this change stems from the troublesome experiences recently experienced. Unlike the FHA program in which the interest rate changes with market conditions, the administrative setting of the VA's interest rate frequently results in the VA ceiling rate lagging behind of market rates. Last year, the VA reduced the ceiling to 9.5 percent on March 3, and shortly thereafter market interest rates temporarily showed a significant increase. As a result, discount points charged by lenders to bring VA loan yields up to market levels fluctuated from an "acceptable" level of about three points to over seven points in some markets. Moreover, because the veteran borrower was limited to paying no more than the one point origination fee in most cases, the sellers were forced to make up the remaining five or more points. This situation has, on occasion, put prospective veteran buyers at a significant disadvantage in the market place, as sellers tend to be extremely wary of buyers using government-backed financing. The rapid run-ups that are common in today's volatile interest rate environment will continue to periodically restrict veteran homebuyers as long as the administratively set ceiling remains in effect. For these reasons, we support the attempt to eliminate the administratively set ceiling on VA-guaranteed home loan interest rates.

C. VA Staffing and Equipment Needs

As the Committee is well aware, the nearly overwhelming volume of refinancing and sales activity in 1986 required Congressional action three times to raise the VA loan guaranty ceiling and avert program shutdowns. The high volume of activity also virtually exhausted VA staff resources and resulted in unprecedented loan processing delays. At the peak of this troubled period, VA loan processing frequently took 4 to 6 months from appraisal order to closing. Although these extraordinary backlogs have been reduced in recent months as 1986's refinancing crunch had eased, it still takes the VA significantly longer to process a loan than the 30 to 45 day turnaround period seen in the conventional mortgage market. Obviously, this is an unfair burden on VA homebuyers and it is a situation that cannot be allowed to continue. For these reasons, C.A.R. supports all efforts to increase VA staffing and equipment utilization.

The increased productivity and benefits to veterans resulting from increased staff and material resources cannot be underestimated. The Association feels strongly that the VA home mortgage program deserves additional staffing concordant with its importance to California's homebuying veterans. We believe that increased staffing, in conjunction with certain programmatic changes designed to improve the efficiency of the loan guarantee process (discussed below), would go long way toward eliminating the costly delays and uncertainties currently being experienced by veterans.

D. VA Property Disposition Issues

It terms of VA property and disposition issues, it is our understanding that the Administration is still considering the establishment of a pilot program to determine the effectiveness of contracting with a commercial organization for the management and disposal of a portion of VA's inventoried properties. C.A.R. does not believe the implementation of this program is necessary and instead supports increased efforts to further enhance the cooperative relationship that has been recently established between the VA (and FHA) and REALTORS® and other real estate professionals.

The one-year old VA-real estate professional program has resulted in increased education among real estate professionals as to the proper procedures required for selling VA inventoried properties. Better lines of communication have been established between the VA and real estate practitioners and these lines can only be expected to improve in the future. Individuals have learned the process and have become willingly involved in the selling of these properties.

With increased education, communication, and resource utilization, the relationship between the VA and real estate professionals is sure to prove fruitful in the future. Witness the above mentioned "computerized bulletin board" established at the VA Regional Office in San Francisco. This relatively low-cost program using readily available PC technology has been enthusiastically received by real

estate licensees and the VA regional office alike. Programs such as this can be expected to mature in the future. We feel the relationship between real estate professionals and the VA will become more and more mutually beneficial and that the use of outside contractors is not the most productive avenue for the VA to undertake.

E. Other Issues

1. Loan Declinations

As mentioned in previous testimony to the Committee, C.A.R. remains concerned about recent changes in VA underwriting guidelines. They include:

- * Revision of minimum residual income standards from a state-by-state minimum to a regional minimum.
- * Introduction of a ratio of total monthly obligations to gross income that generally should not exceed 41 percent.

These program changes were effective October 1, 1986 and C.A.R. has become increasingly concerned that these new requirements have resulted in a substantial proportion of "automatic lender" loan declinations.

C.A.R.'s data indicate that, although the new residual income standards are more favorable for veterans purchasing homes in California, the new debt-to-income ratio would seemingly preclude many veterans from qualifying. We recognize the need for certain debt-to-income benchmarks, and commend the VA's emphasis that both this ratio and an applicant's residual income must be considered in the loan approval process. Along the same lines, we are fully cognizant that these criteria represent guidelines and not automatic reasons for approval or rejection. Nevertheless, the Association is concerned that many lenders will reject loans exceeding the 41 percent debt-to-income guidelines, even in light of compensating factors. Because the onus is on VA "automatic" lender underwriting staff to document any compensating factors if the expenses-to-income ratio exceeds 41 percent, lenders may simply employ the debt-to-income ratio to reject an application without taking the time to pursue the veteran's case further for possible compensating factors. This pattern is particularly likely in today's high volume market conditions. Furthermore, C.A.R. notes that the probability for loans to be unfairly denied based on debt-to-income ratios is increased, given the more restrictive underwriting guidelines implemented by some lenders in response to the current high ratio of VA no-bids.

Due to the restrictiveness of some lenders' underwriting guidelines, C.A.R. feels that veterans should have recourse to seek loan approval by other "automatic" or prior approval VA lenders without being "penalized" by having to reapply and pay loan

application fees a second time. Thus, C.A.R. recommends that the Veterans Administration establish a review process for veterans who believe they have been unreasonably denied a VA loan by an "automatic lender" on the basis of underwriting criteria. Specifically, we suggest that lenders issuing a declination be required to assign the completed loan package to another automatic or prior approval lender at the veteran's request within 5 days. It is hoped that these concerns can be addressed in any legislation reported from the Committee.

F. Appraisals

Finally, C.A.R. supports Section 7 of S. 920 which authorizes the Administrator of the VA to establish an appraisal system whereby appraisal reports completed by the VA-designated fee appraisers would be received and reviewed by approved lenders without VA staff involvement. Approved lenders could certify the reasonableness of appraisals without VA staff help. These lenders would then be able to close the loan without further VA involvement.

This change would allow VA "automatic" lenders to use an approach directly similar to that of HUD's FHA Direct Endorsement Program initiated in 1983. This program has proven to be extraordinarily successful and today more than 80 percent of FHA's loan applications are processed through direct endorsement lenders.

Although we would insist that the VA establish specific criteria for lender appraisal review, we feel that these changes would result in much faster loan turnaround time for veterans seeking home financing. With proper guidelines, this change would not only provide more timely service to the homebuying veteran, but would in no way impair the program's security. By unburdening overtaxed regional offices, these changes would further improve efficiency and cost effectiveness. VA field offices would be allowed to better direct their resources, in light of their current staffing constraints.

IV. Conclusion

In summation, the California Association of REALTORS® strongly supports the continued unrestricted operation of the VA Home Loan Guaranty Program and urges the Veterans Affairs Committee to safeguard and preserve the program that has enabled millions of America's veterans to attain their dreams of homeownership. We thank you for the opportunity to submit this statement. If you have any questions concerning this testimony, please feel free to contact our Chief Economist, Joel Singer, at (213) 739-8269.



CALIFORNIA ASSOCIATION OF REALTORS®

EXECUTIVE OFFICES • 525 SOUTH VIRGIL AVENUE • LOS ANGELES, CALIFORNIA 90020 • (213) 739-8200

JACK PAULSON
President

July 23, 1987

The Honorable Alan Cranston
112 Hart Senate Office Building
Washington, DC 20510

Dear Senator Cranston:

On behalf of the 115,000 member California Association of REALTORS®, I am writing to you to express our views on a variety of veterans housing issues under consideration by the Veterans Affairs Committee. While many of the proposals before your Committee would substantially enhance the viability of the VA loan guaranty program--particularly S. 9--we are extremely concerned that proposals will be made that would sharply restrict the long-standing free assumability of VA home loans. While the Association has been traditionally opposed to mandatory credit checks on VA loan assumptions, we believe that any proposed legislation on VA loan assumability should address the following concerns:

- ° Full and appropriate disclosure of veteran liability on VA loan assumptions should be made at the initiation of the assumption process.
- ° If veterans choose to seek a release of liability, the attendant credit check and approval/denial must be completed by the Veterans Administration in an expeditious manner, similar to the 30-day limit historically used on conventional loan assumption requests.
- ° Attempts to charge a one percent loan assumption fee or similar "user fee" should be rejected. Any fees associated with a formal release of liability should be limited to the costs incurred.

I would like to once again express our gratitude for your long-standing and ardent support of the VA home loan guaranty program. C.A.R. believes that successful enactment of S. 9 would go a long way towards improving the effectiveness of the VA mortgage guaranty program within California. Specifically:

Section 6, the guaranty limit increase to \$36,000, would substantially augment the ability of California's veterans to afford the state's high-cost housing. By increasing the maximum VA mortgage amount to \$144,000, over one-half of California's existing homes--20 percent more than currently available--would be opened up to prospective veteran homebuyers, vastly improving the ability of the VA program to address the unique needs of the California housing market. The proposed guaranty limit increase would just about compensate the nation's veterans for the inflation that has occurred since the last limit increase in late-1980.

Section 8, the "Gramm-Rudman-Hollings" sequestration exemption, would spare the VA-guaranty program from the damaging effects of sharp funding reductions and threatened program shutdowns. As an entitlement program, the VA home loan guaranty program should be allowed to operate on a definitive and predictable basis, free from the political maneuvering that sadly marks the deficit reduction process.

In addition to the home loan guaranty limit increase and the sequestration exemption proposed in S. 9, C.A.R. is also extremely concerned about the new VA loan assumability restrictions recently reported out of the House Veterans' Affairs Committee. As we understand it, HR 2672, the House veterans housing measure, would require that veteran homeowners notify the VA of a pending assumption of a VA-guaranteed loan and that potential assumptors be required to undergo a mandatory credit check and pay an unspecified fee. As we have articulated to both the Senate and House committees, C.A.R. is adamantly opposed to more restrictive assumption requirements. There is little if any evidence that suggests that the hitherto easy assumability of VA mortgages has in any way contributed to the recent increases in the number of VA loan defaults. In point of fact, the current free assumability provisions have enabled many troubled VA borrowers to avoid serious repayment difficulties by giving them the opportunity of "getting out from under" their mortgage debt.

Irrespective of the final outcome of the assumability debate, certain safeguards must be provided to prevent the attendant costs of a VA loan assumption from becoming a "de facto" due-on-sale clause. The fee for credit checks should not be allowed to exceed the actual costs incurred by lenders in processing such reviews. While the House measure does not specify the fees that will be incurred as a result of the new assumption requirements, C.A.R. urges that a "cap" similar to that provided by HUD Mortgagee Letter 86-15 for FHA assumptions be instituted as a part of any credit check provision.

C.A.R. is also vehemently opposed to the imposition of any "assumption fee" that may be required as the result of an assumption of a VA-guaranteed loan. Many potential buyers will no

doubt be unable to pay a loan assumption fee estimated to be as high as one percentage point of the loan's outstanding balance. In originating the loan, the veteran has already paid for the VA guaranty. By charging this user fee a second time, the marketability of the veteran's home would be significantly reduced and the veteran would in effect face a "double-whammy". Although the hope may be to add to federal coffers by imposing this fee, in reality it will be the nation's veterans who will bear the brunt of the cost, as the marketability and attractiveness of his or her home and its accompanying financing will be greatly reduced.

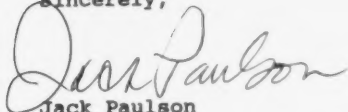
Perhaps most importantly, in preserving the meaningful assumability of VA home loans it is imperative that all requests for release of liability in conjunction with an assumption be processed by the Veterans Administration as expeditiously as possible. Clearly, in market conditions such as those experienced in the spring and summer of last year, protracted delays in the processing of assumption credit reviews would result in the severe erosion of the value of VA loan assumability. It is therefore of crucial importance that the VA be required to give assumption credit reviews a high priority and that they be processed within a stipulated time period. C.A.R. urges that the approval of requests for release of liability be subject to a time limit similar to the 30 day response period historically required on conventional loan assumptions.

The importance of meaningful loan assumability to the VA home loan guaranty program cannot be overlooked. The Association hopes that the assumability restrictions reported out of the House Veterans' Affairs Committee in HR 2672 will be modified significantly during the Senate Committee's mark-up of VA legislation, and that the intent of Congress not to impose additional hardships on veteran homebuyers is made clear in the applicable committee reports. We hope that your committee will consider the adoption of the National Association of REALTORS® proposals on loan assumability, as these would substantially mitigate the burdens imposed by the VA assumption restrictions contained in the House legislation. N.A.R.'s proposed language would provide for full disclosure to veterans whose home loan is being assumed and give them the option of receiving a full release of liability or maintaining liability subject to the terms and conditions of the loan documents.

Finally, we understand that the Committee will have under consideration several Administration proposals related to the VA home loan guaranty program. While we support certain aspects of the Administration's VA bill, S.920, including lender review of appraisals and negotiated interest rates and points on VA-guaranteed loans, we do not support the attempt to increase the guaranty fee to 2.5 percent. Like the House proposal to institute a fee on VA assumptions, this represents yet another attempt to "tax" veterans for use of an entitlement program initiated to honor them for their service to the country.

In summation, with your support, the California Association of REALTORS® is hopeful that the VA Home Loan Guaranty Program will be made stronger and more efficient than ever. We appreciate your long-standing advocacy for the program that has enabled so many veterans to attain homeownership. We look forward to working with you in all future attempts to safeguard and protect this crucially important veterans benefit. If you have any questions, please do not hesitate to contact Joel Singer at (213) 739-8269.

Sincerely,

A handwritten signature in cursive script, reading "Jack Paulson".

Jack Paulson
President
California Association of REALTORS®

cc: Jane Wasman
Joel Singer

JP:hgb

TESTIMONY OF JACK E. RADTKE
PRESIDENT OF URBAN REVITALIZATION, INC.
BEFORE THE SENATE COMMITTEE ON VETERANS' AFFAIRS
JUNE 17, 1987

Mr. Chairman and members of the Committee, I am pleased this morning to accept your invitation to appear before the Senate Committee on Veterans' Affairs to testify on our initiatives with regard to joint venture residential rehabilitation and community revitalization projects, with special emphasis on the rapidly emerging role that the Veterans Administration can play in such projects.

Briefly, by way of background, Urban Revitalization America, Inc. was founded eleven years ago to develop a relatively unique concept of merging a growing number of concerned and committed representatives of the private sector along with the U.S. Department of Labor, Veterans' Administration and HUD to tackle two of our nation's most pressing problems: housing and jobs. Our operating premise of "re-developing cities and re-developing people" has succeeded in securing affordable housing, a catalyst for future economic and community development, and creating a viable workforce, retrained as experts in residential rehabilitation, with sufficient skills to ensure long-term employment stability.

Beginning in 1976, URI was asked to design a series of special projects for the U.S. Department of Labor, the Department of Housing & Urban Development and the Veterans Administration to imaginatively address our nation's housing and employment crisis. The result of these efforts were pilot projects for the Welfare Reform Demonstration Project, the Displaced Automotive Worker, and most recently for the Re-trained Veteran in cities and counties throughout the country. The thesis of these projects was to unite the public sector with committed private sector corporations such as General Motors, Wickes, Johns Manville, Better Homes & Gardens, Alcoa, Bendix and Dow Chemical to join forces to seek solutions to these problems. While completing these programs, URI has rehabilitated over ten thousand residential properties and has provided job training skills to over fifteen hundred men and women, in addition to assisting with community development work on schools, community centers and congregate care facilities for the elderly.

As you may be aware, Mr. Chairman, two months ago, I testified about this topic before both the Subcommittee on Education, Training and Employment and the Housing & Memorial Affairs Subcommittee of the House Veterans Affairs Committee. In discussing our new cooperative endeavors with the Veterans Administration, we focused our attention on four items:

First, the creation of a professional workforce, experienced and licensed in the housing rehabilitation field which would be funded by assistance under the Veterans Job Training Act;

Second, the reduction of the Veterans Administration Inventory of Foreclosed Properties, which still totals of twenty thousand units throughout the country;

Third, the creation of a supply of renovated and rehabilitated single and multi-family homes for immediate re-sale to a network of pre-qualified Veterans;

Finally, fourth, in response to the plight of the numerous homeless veterans throughout the nation, the commitment of this program to sponsor the creation of a series of so called "Temporary Housing Stations" to provide emergency housing for those who are left without shelter.

Our initiatives, are particularly well-suited to assist the VA in a comprehensive effort to provide both affordable and decent housing for their targeted populations. Among the VA's large inventory, are properties that are in need of repair, ranging from structural deficiencies to less severe problems because of lengthy vacancies and subsequent vandalism. As a result, the ability to attract sufficient interest to purchase these homes has been diminished. Large pocket population centers continue to be faced with the misery of those veterans who want work, but cannot locate it and the shortage of acceptable, safe and affordable housing, while the inventory of properties in those cities continue to grow.

Our program, Mr. Chairman, encompasses the utilization of current VJTA dollars, in concert with the cooperation of the Veterans Administration Property Disposition offices in Washington, D.C. and regional offices, to renovate and rehabilitate a number of these properties. For those who are unfortunate to be left homeless, our proposal commits to the renovation of a sufficient number of units in each community to provide the necessary temporary shelter to these citizens.

The program, which has since our previous testimony completed its market testing and analysis, provides for a direct linkage of the re-trained Veteran workforce, with the VA's inventory of foreclosed properties. Throughout the programmatic efforts and the most recent inquiries in developing this new project, the Veterans Administration management offices have been most cooperative and helpful in every respect. Positive responses from the VA, city and state governments have been received from our on-site visits to Chicago, Las Vegas, St. Louis, Kansas City, where we would anticipate having projects underway in the near future, and Atlanta, Dallas, and Baltimore which we are evaluating for the fall.

To accelerate the accomplishment of these goals, we will be seeking assistance from the Veterans Administration and the Department of Labor for funds under Title IV to assist with some of our more unique approaches. These funds will accompany our commitments from both the public and private sector which will continue to insure that this national effort can be realistic and focused.

We are confident, Mr. Chairman, that fusing the diligent efforts of veterans working in a comprehensive job training program, with a coordinated approach to renovate properties can offer one solid and effective answer to the veteran's job and housing crisis. I appreciate this opportunity to testify before the Committee and look forward to assisting you with the development of your legislative initiatives on this topic for the future.




Motto: "If I cannot speak good of my comrade, I will not speak ill of him."

DISABLED AMERICAN VETERANS

NATIONAL SERVICE and LEGISLATIVE HEADQUARTERS
807 MAINE AVENUE, S.W.
WASHINGTON, D.C. 20024
(202) 554-3501

July 1, 1987

Honorable Alan Cranston
Chairman
Senate Veterans Affairs Committee
414 Russell Senate Office Building
Washington, DC 20510

Dear Chairman Cranston:

The DAV is pleased to respond to your request during the June 17, 1987, Senate Veterans Affairs Committee hearing on the VA Home Loan Guaranty Program regarding options the Committee may consider to fulfill the reconciliation instructions of the Fiscal Year 1988 budget resolution.

As you know, the Fiscal Year 1988 budget resolution adopted by the Congress assumed \$50 million in savings in 1988 from real property cash sales from the VA's Home Loan Guaranty Program portfolio.

A cash sale from the VA's portfolio, in our view, represents a "quick-fix" option that only provides short term savings and immediate cash to the treasury which, in reality, serves to drive the VA Home Loan Guaranty Program further from regaining self-sufficiency.

We recall the long term loss of income to the Revolving Fund that was incurred by the VA Home Loan Guaranty Program as a result of the sale of portions of the VA's portfolio during the early 1980's and that further losses were suffered by the Fund due to the dramatic increases in foreclosures on VA guaranteed loans.

Therefore, we urge you and the members of the Committee to reject the above cited \$50 million savings' assumption and consider other alternatives to meet the reconciliation requirements of the Fiscal Year 1988 budget resolution.

One such alternative would be that all monetary fines, penalties, settlements and administrative recoveries obtained as a result of unlawful or fraudulent schemes/practices occurring in the VA Home Loan Guaranty Program be credited to satisfy the budget reconciliation requirements.

Honorable Alan Cranston
June 30, 1987
Page 2

In addition, the DAV has no objection, to further meet the reconciliation requirement for 1988, to requiring collection of the user fee (if such fees must be collected) from individuals who assume VA guaranteed loans and reap the benefit of that guaranty.

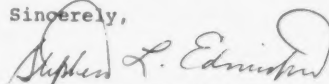
As you know, Mr. Chairman, the DAV does not support the concept of user fees in any VA benefit program. However, we do not object to extending such fees to individuals who assume VA guaranteed loans, as many non-veterans benefit from the VA guaranty as a result of assuming such loans.

With respect to meeting the required reconciliation, the question was raised whether increasing the current 1% user fee to 2% for only vendee loan sales may also be an appropriate means to meet the savings requirement.

Increasing the user fee for only vendee loan sales will, in our view, only serve to further perpetuate a concept to which we are opposed and potentially lead to across-the-board increases in the fee for all users of the program.

Mr. Chairman, the DAV appreciates the opportunity to comment on these important issues and commends you, and the Committee members, for your sincere interest in the VA Home Loan Guaranty Program.

Sincerely,



STEPHEN L. EDMISTON
Deputy National Legislative Director

SLE:am



Mortgage Bankers Association of America

1125 Fifteenth Street, N.W.
Washington, D.C. 20005

Burton C. Wood
Senior Staff Vice President
and Legislative Counsel
202-861-6507

August 14, 1987

The Honorable Alan Cranston
Chairman
Committee on Veterans Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

On July 23, you asked the Mortgage Bankers Association to respond to questions submitted by you in connection with the June 17 hearing held by the Senate VA Committee on the VA home loan guaranty program. I am pleased to respond to your request.

1. Question: "The amount of the maximum guaranty has varied over the years and is now 60 percent of the loan amount, up to a maximum of \$27,500.
 - A. (i) What would be your views on legislation reducing the percentage limitation to 30 percent?
 - (ii) What would be your views on legislation reducing it to 40 percent?
 - B. What effect would such a reduced rate have on the secondary market for VA-guaranteed paper?"

Answer: A. (i) While this proposal may facilitate VA home loans in some high cost areas where they currently are not feasible, the overall effect would be a disservice to veterans at the lower end of the loan scale.

The average VA home loan amount in 1986 was \$70,000, with an average purchase price of \$73,000. The average loan-to-value (LTV) ratio was 95.8 percent. These average loan and purchase price amounts are below the 1986 average sales price for all homes, which is over \$100,000. These figures show that the VA home loan program currently serves the lower end of the homeownership scale. A 30 percent maximum guaranty would not serve this market because the guaranty amount would not be high enough. Currently, a \$70,000 VA loan is guaranteed up to the lesser of \$27,500 or 60 percent of the loan amount (which is \$42,000). The guaranty amount, therefore, is \$27,500. Under a flat 30 percent guaranty on a \$70,000 loan, the guaranty amount would be \$21,000, or \$6,500 less than the current law.

This reduced guaranty is disadvantageous for two reasons. First, the VA loan is acknowledged to be a higher risk loan. As stated, the average LTV is 95.8 percent, which is much higher than the conventional loan market permits. The lender of a VA home loan does not control the property value; that determination is made by the VA. Also, VA underwriting guidelines are more flexible than for other kinds of mortgages. In other words, the VA-guaranteed loan is intended for the veteran who might not otherwise qualify for a mortgage. A \$27,500 guaranty for such a loan is not unreasonable.

The second reason MBA opposes the 30 percent guaranty is that it would exacerbate the no-bid crisis and cause lenders to suffer even higher losses. Under the claim payment formula, if, after calculating the amount of the loss from the loan on the property, the loss is more than the guaranty amount, the VA pays the guaranty amount and the lender keeps the property. On the other hand, if the loss is less than the guaranty amount, the VA pays the lender the loan amount and acquires the property. By reducing the guaranty amount, which is used in the formula, lenders would be faced with more no-bids.

Consider the following examples:

In Example 1, the net value of the property and the loss amount are the same in both cases, and it is the differential in the guaranty amount that determines whether the lender suffers increased losses.

Example 1:

	<u>Current</u>	<u>Guaranty Amount</u>	<u>Proposed</u>
Debt	\$70,000		\$70,000
Net Value of Property	46,000		46,000
Loss	\$24,000		\$24,000
Guaranty Amount	27,500		21,000 (30%)
Loss Is Less Than Guaranty Amount	\$ 3,500	Loss Is More Than Guaranty Amount	\$ 3,000
	<u>VA Acquires</u>		<u>No-bid</u>

In Example 2, the figures show that a no-bid is created, and the lender's losses are increased, at a much higher net property value under the proposed 30 percent guaranty amount. The net value of the property is \$6,500 higher than under the current system when a no-bid is created.

Example 2:

	<u>Current</u>	<u>No-Bid Threshold</u>	<u>Proposed</u>
Debt	\$70,000		\$70,000
Net Value of Property	42,499		48,999

3

Loss	\$27,501	\$21,001
Guaranty Amount	<u>27,500</u>	<u>21,000</u> (30%)
	Loss is more than guaranty amount	Loss is more than guaranty amount
	<u>No-bid</u>	<u>No-bid</u>

A. (ii) A 40 percent limitation on the guaranty amount facilitates VA loans in high cost areas, but for loans less than \$68,750, the amount of the guaranty is less than that under the current coverage. In the State of Texas where lenders have already suffered an extraordinarily high percentage of no-bids, anecdotal evidence indicates that the average loan amount is between \$50,000 and \$60,000. Loans in this range would receive lower guaranties, which would trigger more no-bids than under the current guaranty. This would be one more reason why Texas lenders would be disinclined to make VA home loans. On a nationwide basis, this reduced guaranty would be a disincentive to the lender to serve the veteran who needs the program the most. That is a concern of ours. Legislation passed by the House of Representatives, HR 2672, the "Veterans' Housing Rehabilitation and Program Improvement Act of 1987," would provide for a maximum guaranty of 40 percent of the loan amount, up to \$40,000. If past practices were followed, i.e., loans up to four times the guaranty amount were allowed without a downpayment, then loans up to \$160,000 could be made before a veteran was required to make a downpayment. This provision would assist veterans in high cost housing areas who currently are unable to take advantage of their VA home loan benefit because of the present loan limits. If the guaranty amount would be a flat percentage of the loan, that percentage would have to be at least 50 percent in order to serve the low end of the market and the high risk loan, which are the goals and objectives of the VA home loan guaranty program.

B. The reduced rate would have no appreciable effect on the Government National Mortgage Association (GNMA) secondary market. Historically, GNMA has put a limitation, based on the amount of the guaranty, on the maximum amount of VA loans eligible for GNMA pools. To the best of our knowledge, GNMA would continue to set such limits. GNMA liability on loans is contingent, that is, it only pays investors if the lender defaults.

2. Question: "In your testimony (page 17), you stated that, where new underwriting on assumptions is required, lenders should be adequately compensated for costs they incur in checking the creditworthiness of the purchaser. What would those costs be, and who do you believe should be responsible for their payment?"

Answer: Underwriting costs on an assumption include the credit report; verification of employment, income (from all sources, such as child support and alimony) and deposits in banks; underwriting evaluation; and the mortgage status report. MBA believes that lenders should be compensated in an amount not to exceed 1 percent of the loan. This should be paid by the buyer. MBA's surveys indicate that the cost of processing loans is more than the 1 percent origination fee that is

charged for loan origination.

3. Question: "In your testimony (page 13), you stated that if vendee loans are sold without recourse, they cannot be put into GNMA loan pools and that, consequently, the loans would be sold at unnecessarily depressed prices or might be altogether unmarketable. What experiences and data are you aware of regarding comparable sales?"

Answer: In April 1987, the VA offered part of its loan portfolio for sale without recourse. The only serious bid received was 65 cents on the dollar. The VA did not accept any bids. Rumor has it that some education department loans were sold at 50 cents on the dollar.

4. Question: "You have stated that you would have no objection to the imposition of a one-half percent fee on the buyer when a VA guaranteed loan is assumed--with the fee to be deposited in the Loan Guaranty Revolving Fund. The National Association of Realtors has testified against such a fee. What effects do you think such a fee would have on:

- A. The default rate on assumed VA-guaranteed loans?
- B. The solvency and stability of the Loan Guaranty Revolving Fund?
- C. The veterans' ability to sell their homes?"

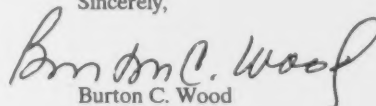
Answer: A. Such a fee might have some effect on the default rate. Because the buyer would be making an additional investment in the property, there might be slightly more motivation not to default.

B. It is difficult to project the effect of the fee on the solvency of the Revolving Fund because no data exists on how many loans are assumed. However, the effect should be positive even though predicting what the volume would be is uncertain.

C. Anything that increases costs would be an impediment to the transfer of the property by assumption.

I hope these responses address your concerns. Please let us know if I could be of further assistance.

Sincerely,


Burton C. Wood



National Association of Home Builders

National Housing Center
15th and M Streets, N.W., Washington, D.C. 20005
Telex 89-2600 (202) 822-0470

Robert D Bannister
Senior Staff Vice President

August 17, 1987

The Honorable Alan Cranston, Chairman
Committee on Veterans Affairs
414 Russell Senate Office Building
Washington, D.C. 20510

Dear Senator Cranston, *Alan*

I am responding to your letter of July 23, 1987, asking for the National Association of Home Builders opinion on the effects of a one half of one percent fee on assumed loans and our suggestions for improving the VA's property disposal program.

First, I would like to comment on the one half of one percent fee on assumptions. While we basically build new homes and are removed from the loan making process at the time an assumption is made, we are concerned with the veteran's ability to sell his home and the overall effects on the program. One of the more attractive provisions of the VA program is the assumability of VA mortgages as most conventional loans do not have this feature. By encumbering the assumability feature with new underwriting and fees, it may affect a veteran's ability to sell his home, which could prevent him from purchasing a new home. A lender should be reimbursed, however, for the cost of new underwriting, but fees beyond this amount should not be required.

Second, you asked for our suggestions on marketing and selling VA properties to improve the VA's property disposal program. Your legislation (S.9) to require the VA to list all of its acquired properties with real estate brokers to expedite sales at the highest price is a step in the right direction. The VA currently does not list its homes under multiple listing services and is auctioning foreclosed properties in some areas for 50 percent below market value. Such actions further depress home values in these areas and make it impossible to compete against the VA's sales practices.

- 2 -

You may want to consider a solution proposed by our Vice President and Secretary when he recently testified before a House VA hearing in Houston. He suggested that foreclosed properties be retained in the VA portfolio as rental units. This would not only provide housing for people who cannot afford to buy, but would prevent the VA from auctioning properties which depress the market. This will save the government money by prohibiting properties from being sold at such deep discounts.

Thank you for allowing us to present our views. Hopefully this will be helpful as the Congress continues to deliberate on ways to improve the VA Home Loan Guaranty Program.

Sincerely,

A handwritten signature in cursive script, appearing to read "Bob", written in dark ink.

Robert D Bannister
Senior Staff Vice President



NATIONAL ASSOCIATION OF REALTORS®

William M. Moore, President
 Nestor R. Weigand, Jr., President-elect
 Ira Gribin, First Vice President

William D. North, Executive Vice President
 Stephen D. Driesler, Senior Vice President, Government Affairs
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 Telephone 202 383 1000

August 27, 1987

The Honorable Alan Cranston
 Chairman
 Committee on Veterans' Affairs
 United States Senate
 Washington, D.C. 20510-6375

Dear Mr. Chairman:

On behalf of the NATIONAL ASSOCIATION OF REALTORS®, I am pleased to respond to your March 9, 1987 letter requesting additional information concerning the Veterans Administration's home loan guaranty program.

VA Loan Guaranty Revolving Fund

The NATIONAL ASSOCIATION OF REALTORS® opposes any proposal to increase the one percent funding fee currently imposed on VA-guaranteed home loans, however, as stated in our testimony, we are concerned for the financial viability of the VA's Loan Guaranty Revolving Fund. The NATIONAL ASSOCIATION OF REALTORS® believes that the key to re-establishing the viability of the VA fund is to operate the program more efficiently and to better utilize the program's existing resources. Proposals that raise the veterans cost to use the program only result in rendering the VA entitlement less useful.

The NATIONAL ASSOCIATION OF REALTORS® believes that the Committee's bill should demand that the VA better utilize its own existing resources. For example, the NATIONAL ASSOCIATION OF REALTORS® strongly supports a provision that would make greater use of VA's acquired assets by utilizing an aggressive marketing program in conjunction with local real estate agents. We believe that such marketing will result in a higher and quicker level of sales thus reducing the VA's maintenance and marketing costs which are funded by the loan guaranty revolving fund.

Secondly, the NATIONAL ASSOCIATION OF REALTORS® continues to urge the Committee to reject the Administration's mandate that VA continue to sell its vendee loan portfolio. Historically, the VA's portfolio provided a constant source of interest income to the loan guaranty revolving fund. While the majority of these loans have been sold, we believe that continued sale, and particularly on a non-recourse basis only exacerbates the financial problems of the loan guaranty revolving fund.



REALTOR® is a registered collective membership mark which may be used only by real estate professionals who are members of the NATIONAL ASSOCIATION OF REALTORS® and subscribe to its strict Code of Ethics.

The NATIONAL ASSOCIATION OF REALTORS® also encourages actions to allow mortgage lenders to operate with greater independent authority under the VA program. The VA should be enabled to delegate those responsibilities that can be performed by the private sector. For example, we would favor a provision to allow VA-appraisers to return their appraisal reports directly to a VA-approved lender, rather than to the VA, for determination of the property's reasonable value.

VA Appraisal Process

The NATIONAL ASSOCIATION OF REALTORS® favors the establishment of a direct-appraisal system for the VA home loan guaranty program. Under the program, VA-designated fee appraisers (assigned by the VA on a rotating basis from the VA fee panel) would return their appraisal reports directly to VA-approved lenders, who would be responsible to determine the property's reasonable value.

Under the proposal, the Veterans Administration would continue to assign its own approved appraisers, however the lender, and not the VA would be responsible for reviewing the completed appraisal report, a responsibility that includes assuring the quality of the appraisal report, and determining the reasonable value of the property.

The effect of not providing this authority is clear. The tremendous loan volume experienced in every sector of the mortgage market during the past year was especially crippling to the VA program, which simply could not perform enough appraisals to keep up with the demand. As a result, it was not uncommon for the processing of such appraisal requests to be severely delayed. Some of our members reported delays up to four months. In comparison, the FHA Direct Endorsement Program, which does allow lenders to review FHA-conducted appraisal reports, was better able to cope with the processing crisis.

The VA direct-appraisal program, as previously proposed, does differ from the appraisal process authorized by the Department of Housing and Urban Development's FHA Direct Endorsement Program. Like the VA proposal, Direct Endorsement lenders may request that the FHA assign an appraiser from the FHA fee panel to perform an appraisal for an FHA application. Also like the VA proposal, FHA lenders are authorized to review the appraisal reports performed by FHA fee-appraisers. Unlike the VA proposal, the FHA may also authorize lenders to maintain appraisers on their own staff, approved to perform appraisals for FHA applications.

Disposition of VA Properties

The role of the NATIONAL ASSOCIATION OF REALTORS® is to facilitate the development of the program through staff and financial support. The NATIONAL ASSOCIATION OF REALTORS® staff also maintains a continuing liaison with VA headquarters staff and provides them with any necessary assistance. The

- 3 -

NATIONAL ASSOCIATION OF REALTORS® staff also assists the REALTOR® program chair, the Boards of REALTORS® staff, and members in implementing the program. The Association is also responsible for maintaining regular communication with the demonstration sites.

The role of the VA is to encourage, promote, and facilitate implementation of the program in the various demonstration sites. VA is also responsible for responding to specific inquiries from regional staff concerning changes in or waivers of administrative rules so as to assure more flexibility in working with the private sector. VA is also responsible for maintaining communication with their regional staff in the demonstration sites.

Local Boards of REALTORS® and the individual REALTORS® on the Advisory Councils are responsible for implementing the various program activities as agreed upon between the local VA staff and the REALTOR® Advisory Councils. Their activities may include: development and operation of educational programs, maintaining regular communication and meetings with VA staff, coordinating marketing of VA properties and dissemination of property information to the real estate community.

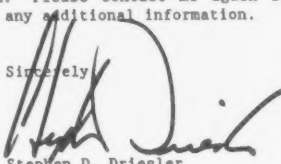
The NATIONAL ASSOCIATION OF REALTORS® will be pleased to keep the Committee informed on the progress in the Southern California site, as well as the other sites.

In fact, we are proceeding successfully in the Southern California demonstration site. We have worked with the VA regional office to secure a computer disc of their listings on a regular basis. One of our largest Southern California Boards of REALTORS® has converted the disc into a written bulletin, and is distributing the bulletin to all of the Southern California Boards of REALTORS®' members. We are also working to implement the computerized bulletin board in the Los Angeles Regional Office.

Conclusion

Mr. Chairman, I would like to thank you for the opportunity to provide additional information concerning the REALTOR® perspective to the Veterans Administration's home loan guaranty program. Please contact me again if the NATIONAL ASSOCIATION OF REALTORS® may offer any additional information.

Sincerely,



Stephen D. Driesler

NATIONAL CAPITAL OFFICE

NCOA

NON COMMISSIONED
OFFICERS ASSOCIATION

225 North Washington Street • Alexandria, Virginia 22314 • (703) 549-0311

April 7, 1987

Honorable Alan Cranston
Chairman
Committee on Veterans' Affairs
United States Senate
Washington, D.C. 20510-6375

Dear Chairman Cranston:

Thank you for allowing NCOA to comment on the proposals offered by mortgage lenders and realtors during recent hearings on the VA budget. Hopefully you will find the attached information useful.

Your courtesy in providing NCOA the opportunity to make these additional comments is deeply appreciated.

Sincerely,


Richard W. Johnson
Director of Legislative Affairs

attachment a/s

RWJ/car

International Headquarters • NCO Association • P. O. Box 33610 • San Antonio, Texas 78265 • (512) 653-6161

QUESTION 1. MBA (page 17 of its testimony) advocated the delegation of the authority for VA foreclosures to the lenders. Specifically, MBA proposed that lenders be authorized to order the pre-foreclosure appraisal, determine whether the VA should acquire the property or pay the guaranty (in accordance with the statutory formula), and determine the appropriate bidding instructions for the VA at the foreclosure sale. According to MBA, the VA would monitor lender performance to ensure the integrity of the process.

ANSWER 1. The MBA proposal is highly self serving and, notwithstanding efforts by the VA, would probably result in many cases of increased indebtedness to the veteran and increased liability to the VA. Too many variables exist to effectively create a statutory formula which would protect the veteran and the VA against appraisal variances, inadequacies in lender review procedures and outright errors in processing. The VA has an obligation to protect the veteran and itself through the foreclosure process. Accordingly, NCOA believes delegation of foreclosure authority should be opposed.

QUESTION 2. CAR (page 5 of its testimony) recommended that, especially in light of the stricter underwriting criteria many lenders are now using, a veteran whose VA loan application has been rejected by a lender with prior VA approval to make guaranteed loans should be permitted to seek loan approval from another such lender without having to reapply and pay a second loan application fee.

ANSWER 2. NCOA agrees. Veterans should not be required to pay for essentially the same services twice. However, smaller review fees might be allowed, if necessary, to assure lender acceptance.

QUESTION 3. CAR (page 5 of its testimony) proposed that the VA establish an appeals process for veterans who have been denied VA home loans by an automatic lender on the basis of underwriting criteria.

ANSWER 3. NCOA supports the concept of allowing veterans to ask for reconsideration at the Regional Office. However, care should be taken to assure that reviews of this kind do not adversely affect the program. Lenders, even automatic lenders, should have the final decision in the loans they make.

QUESTION 4. NAR (page 5-6 of its testimony) stated its support for legislation to establish a direct appraisal system for properties for which VA-guaranteed home loans are sought. Under such a system, lenders would review and certify appraisals by VA-designated fee appraisers without the direct involvement of the VA and close loans on the basis of their own reviews, and the VA would establish criteria which lenders would have to meet in order to be able to process loans in this manner.

ANSWER 4. While variations in appraisal quality would likely result from enactment of this proposal it is unlikely they would have an adverse effect on veterans or the VA. Additionally, vesting lenders with this authority would likely expedite loan processing, a distinct advantage to the veteran. NCOA supports the initiative.

QUESTION 5-A. NAHB (pages 8-9 of its testimony) and MBA (pages 14-15 of its testimony) proposed that the VA establish a program of VA guaranties for adjustable rate mortgages (ARMs), similar to the FHA program for effective rate of interest on a VA-guaranteed home loan, based on a national rate index.

ANSWER 5-A. NCOA is totally opposed to the inclusion of adjustable rate mortgages (ARMs) in the VA loan program. Too few veterans understand the impact a one percent increase in the loan rate can have on monthly payments. For example: a thirty year mortgage of \$70,000 at 8.5 percent would require monthly payments of \$538.24. If the rate were adjustable at two percent per year, monthly payments could rise to \$640.32, an increase of almost 19 percent in one year. A limited one percent rate increase would raise payments 9.5 percent to \$588.60 monthly. A four to six percent total adjustment on the mortgage could allow payments to rise as much as 50 to 55 percent over the first few years of the loan. Such increases might be tolerable for some veterans, however they would, NCOA believes, be unacceptable to most.

QUESTION 5-B. MBA (pages 14-15 of its testimony) also recommended that VA ARMs be authorized without statutory ceilings on adjustments in the mortgage interest rate and be freely negotiable, but that the Administrator be empowered to set caps on adjustments as the VA gains experience with this type of mortgage.

ANSWER 5-B. As stated above, even capped increases in annual percentage rates can drastically increase the veteran's mortgage payment. Thus a period of high inflation accompanied by stagnation in economic production and wages such as the U.S. experienced in the late 1970's and early 1980's could produce tens of thousands of homeless veterans and foreclosures as mortgage commitments exceed income gains. Unchecked rates would further compound the problem if initial rates were deeply discounted to attract sales. Under such conditions payment increases could be even more devastating.

QUESTION 6-A. MBA (pages 15-19 of its testimony) proposed that, when a VA-guaranteed home loan is in default the accrual of interest for purposes of the no-bid calculation should cease when the lender has decided and is prepared to foreclose, although interest should continue to accrue and be reimbursed by the VA as part of the lender's claim if the VA acquires the property.

ANSWER 6-A. NCOA would support this proposal only if the interest was forfeited upon acquisition by the VA if the property

is bid. Otherwise the proposal serves only to allow lenders to selectively avoid VA acquisition rules in the bid/no-bid determination.

QUESTION 6-B. If a foreclosure is delayed due to circumstances beyond the control of the lender or the VA, such as bankruptcy, the lender should have the option to stop the accrual of interest for purposes of the no-bid calculation in return for forfeiting the right to be reimbursed for such interest if the VA acquires the property.

ANSWER 6-B. Like the first proposal this suggestion would skew the VA acquisition formula in favor of the lender. Even though the interest would be forfeit in this situation lenders would still be allowed to selectively avoid their own acquisition of undesirable properties under certain circumstances.

QUESTION 6-C. Interest that accrues during a period of VA-requested forbearance by a lender should not be taken into account in the no-bid calculation, but should continue to accrue and be reimbursed by the VA as part of the lender's claim if the VA acquires the property.

ANSWER 6-C. Interest accrued during a period of VA requested forbearance should be the financial responsibility of the administration.

QUESTION 7. NAR (pages 12-13 of its testimony) recommended that VA regional offices establish computerized "bulletin boards", similar to that in use by the San Francisco regional office which provide real estate professional access to information regarding VA property listings.

ANSWER 7. The establishment of computerized listings of VA properties is highly desirable and should be encouraged even if additional resources must be allocated to the VA to achieve this objective.

NATIONAL CAPITAL OFFICE

NCOA

225 North Washington Street • Alexandria, Virginia 22314 • (703) 549-0311

June 24, 1987

Honorable Alan Cranston
United States Senate
Chairman, Committee on Veterans' Affairs
414 Russell Senate Office Building
Washington, D.C. 20510

Dear Senator Cranston:

Thank you for inviting NCOA's comments on several issues raised during hearings on the VA's loan guaranty program held June 17, 1987. Several fine ideas were raised in testimony and NCOA is looking forward to the introduction of legislation which you announced. The Association also endorses Senator Domenici's proposal to redefine the loan regions in which New Mexico is included.

Senator Domenici raises an issue of great concern. Residual income requirements for home loans are prescribed by region. New Mexico is included in a region where higher residual incomes are required than in adjacent regions. New Mexico's problem is not unique. Indeed, there are wide variances in economic conditions within any region, particularly between urban and rural areas. Accordingly, NCOA endorses the concept of allowing regional loan guaranty officers to set exceptions to the residual income requirements commensurate with the economy and needs of their areas.

NCOA is also pleased to endorse the concept of legislation described in your opening statement with regard to allowing refinancing by servicemembers and other veterans who are not living in their homes. As you are aware, the requirements of military service frequently cause the relocation of families from one installation to another. Even civilian companies sometimes require relocation of personnel. Allowing veterans to refinance homes they still own after such relocation will help to reduce foreclosures and will reduce veteran's debt. NCOA is hopeful that the legislation will not be restrictive. For example,

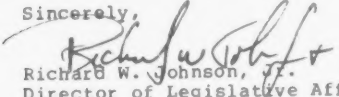
International Headquarters • NCO Association • P. O. Box 33610 • San Antonio, Texas 78265 • (512) 653-6161

Honorable Alan Cranston
June 24, 1987
Page 2

NCOA believes servicemembers bound for overseas or isolated duty should be allowed to use their VA guaranty to purchase homes used as residences by their family in their absence. Additionally, NCOA would authorize refinancing even if none of the veteran's family lives in the house. This would accommodate servicemembers who are accompanied by their families on tours away from home.

Thank you, again, for the opportunity to provide these additional comments.

Sincerely,


Richard W. Johnson, Jr.
Director of Legislative Affairs

RWJ/car



PARALYZED VETERANS
OF AMERICA

Forty Years of Service
1947 1987

April 29, 1987

The Honorable Alan Cranston, Chairman
Senate Committee on Veterans' Affairs
414 Senate Hart Office Building
Washington, D.C. 20510

Dear Senator Cranston:

Thank you for your letter dated March 26, 1987, and the questions pertaining to the February 18 and 19 hearings on the FY 1988 budget for veterans programs. Although these questions are very detailed and complex in their scope, dealing more with realtors and lenders, I will answer them from VSO's standpoint, but our answers will be brief and general in nature.

Question 1. MBA (page 17 of its testimony) advocated the delegation of the authority for VA foreclosures to the lenders. Specifically, MBA proposed that lenders be authorized to order the pre-foreclosure appraisal, determine whether the VA should acquire the property or pay the guaranty (in accordance with the statutory formula), and determine the appropriate bidding instructions for the VA at the foreclosure sale. According to MBA, the VA would monitor lender performance to ensure the integrity of the process.

Answer 1. We do not agree with the MBA position advocating the delegation of authority to lenders for VA foreclosures. The VA, and only the VA, should be able to make the decision whether to acquire the property or pay the guaranty.

Question 2. CAR (page 5 of its testimony) recommended that, especially in light of the stricter underwriting criteria many lenders are now using, a veteran whose VA loan application has been rejected by a lender with prior VA approval to make guaranteed loans should be permitted to seek loan approval from another such lender without having to reapply and pay a second loan application fee.

Answer 2. We agree with CAR, if in effect the only charges a veteran borrower has to pay up-front are the Credit Report and the Certificate of Reasonable Value (CRV). It would be to the benefit of the veteran, that if these charges were paid to the original lender and then the application was denied, that they could be transferred to another lender without having to repay the fees.

801 Eighteenth Street, N.W., Washington, D.C. 20006 (202) USA-1300
Chartered by the Congress of the United States

The Honorable Alan Cranston
 April 29, 1987
 Page Two

Question 3. CAR (page 5 of its testimony) proposed that the VA establish an appeals process for veterans who have been denied a VA home loan by an automatic lender on the basis of underwriting criteria.

Answer 3. If it can be documented that in some areas veterans are unduly being denied, then some consideration should be given to an alternative process. If underwriting practices are uniform, we would be doing a disservice to the veteran by providing a VA loan guaranty (increasing the risk of fore-closure) through an appeal process.

Question 4. NAR (pages 5-6 of its testimony) stated its support for legislation to establish a direct appraisal system for properties for which VA-guaranteed home loans are sought. Under such a system, lenders would review and certify appraisals by VA-designated fee appraisers without the direct involvement of the VA and close loans on the basis of their own reviews, and the VA would establish criteria which lenders would have to meet in order to be able to process loans in this manner.

Answer 4. Again, the VA should be involved in the whole process, especially when a veteran is committed to a VA home loan guaranty.

Question 5. A. NAHB (pages 8-9 of its testimony) and MBA (pages 14-15 of its testimony) proposed that the VA establish a program of VA guaranties for adjustable rate mortgages (ARMs), similar to the FHA program for ARMs, under which the lender would make periodic adjustments in the effective rate of interest on a VA-guaranteed home loan, based on a national rate index.

B. MBA (pages 14-15 of its testimony) also recommended that VA ARMs be authorized without statutory ceilings on adjustments in the mortgage interest rate and be freely negotiable, but that the Administrator be empowered to set caps on adjustments as the VA gains experience with this type of mortgage.

Answer 5. We do not support the use of ARM's.

Question 6. MBA (pages 15-19 of its testimony) proposed that, when a VA-guaranteed home loan is in default:

A. The accrual of interest for purposes of the no-bid calculation should cease when the lender has decided and is prepared to foreclose, although interest should continue to accrue and be reimbursed by the VA as part of the lender's claim if the VA acquires the property.

The Honorable Alan Cranston
 April 29, 1987
 Page Three

B. If a foreclosure is delayed due to circumstances beyond the control of the lender or the VA, such as bankruptcy, the lender should have the option to stop the accrual of interest for purposes of the no-bid calculation in return for forfeiting the right to be reimbursed for such interest if the VA acquires the property.

C. Interest that accrues during a period of VA-requested forbearance by a lender should not be taken into account in the no-bid calculation, but should continue to accrue and be reimbursed by the VA as part of the lender's claim if the VA acquires the property.

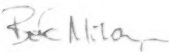
Answer 6. By making these changes, it would only assist the lenders, not the VA or the veteran; therefore, we are somewhat hesitant to comment on these specific, detailed proposals without additional, detailed amplification.

Question 7. NAR (pages 12-13 of its testimony) recommended that VA regional offices establish computerized "bulletin boards", similar to that in use by the San Francisco regional office, which provide real estate professionals access to information regarding VA property listings.

Answer 7. Any lender can now obtain a listing of VA properties by having their name entered on the VA's mailing list; however, the growing utilization of electronic communication should be explored. Attention should be given to the potential benefit to the VA, veterans, and the cost and manpower required if such a network were to be established.

Again, thank you for your concern and for holding the February hearing. Also, thank you for allowing PVA the opportunity to testify, and I hope our input has been helpful. Please don't hesitate to contact us if you have any questions regarding our answers.

Sincerely yours,



Bob Moran
 Associate Legislative Director

BM/ef

cc: The Honorable Frank H. Murkowski

The American Legion



For God and Country

★ WASHINGTON OFFICE ★ 1608 "K" STREET, N.W. ★ WASHINGTON, DC 20006 ★
(202) 861-2700 ★

April 22, 1987

Honorable Alan Cranston, Chairman
Senate Committee on Veterans' Affairs
SR-414 Russell Senate Office Building
Washington, DC 20510

Dear Chairman Cranston:

This letter will respond to your March 26 letter containing questions on the VA home loan program arising from the hearings of February 18 and 19. We apologize for the delay in responding, but the complexity of some of the proposals upon which we are asked to comment have required some research. In that regard, there are some suggestions that, in the absence of technical expertise, we are unable to address fully.

Moreover, it should be stated at the outset that The American Legion takes the view that the VA home loan program is a veterans benefit program. Similarly, it is not a program designed to serve the profit interests of bankers, realtors, builders or investors in mortgage backed securities. Over the years since this program was established, it has worked well in assisting veterans. In the process of assisting veterans, this particular program has also benefited the bankers who lend mortgage dollars, the realtors who sell property, the builders who produce housing and the investors in real estate. While the Legion has no quarrel with any of the ancillary beneficiaries of the program or their motives, it is important to bear in mind just who the program was originally intended to serve.

After having said that, we shall address the proposals made by the National Association of Realtors (NAR), the National Association of Homebuilders (NAHB), the Mortgage Bankers Association (MBA) and the California Association of Realtors (CAR). In offering comment on these proposals it should be understood that our perspective is motivated by the effect each may or may not have on veteran beneficiaries irrespective of the benefits potentially accruing to the organizations making the recommendations.

1. MBA advocated the delegation of the authority for VA foreclosures to the lenders. Specifically, MBA proposed that lenders be authorized to order the pre-foreclosure appraisal, determine whether the VA should acquire the property or pay the guaranty (in accordance with the statutory formula), and determine the appropriate bidding instructions for the VA at the foreclosure sale. According to MBA, the VA would monitor lender performance to ensure the integrity of the process.

In making this proposal, MBA has argued that the period of time it takes to conclude a foreclosure could be considerably shortened by contrast with the period of time it currently takes the VA. While recognizing MBA's basic desire to shorten the process, we don't believe that a shortened process would be appropriate in many cases. If VA were to undertake, as the Legion has recommended on several occasions, efforts to counsel the veteran in default as to his employment, training or other readjustment options prior to foreclosure, an extended foreclosure process might be advisable so as to give the veteran

the best possible chance to regain his or her economic footing and begin repaying the mortgage payment arrearage.

In this connection, the Legion has consistently urged the VA to assist veterans in securing forbearance by lenders in instances where the default is due to a temporary economic reversal the veteran is likely to overcome. An example of this might be an individual who is divorced and suddenly is deprived of the two incomes on which the initial mortgage was qualified. In this example, the veteran might need time to take in a roommate to share expenses.

The Legion has also supported legislation to provide foreclosure relief for veterans the Administrator determines to be likely to regain sufficient economic wherewithal to repay the temporary VA-paid mortgage assistance. This type of legislation was passed by the House some years ago.

For its part, the MBA may be offering this suggestion because of concerns that VA is acquiring fewer foreclosed properties and is instead paying the guaranty more frequently than in the past. Bankers have repeatedly stated that they are ill prepared to market real estate and that the costs of maintaining and marketing foreclosed property are prohibitive. In stating this concern, MBA has also expressed fear that the incentive to lend mortgage dollars to veterans using the VA program might diminish.

This fear has been evidenced in fact in parts of the country such as Texas where foreclosure rates remain high and where property has fallen in value precipitously. To the extent that lenders are avoiding veterans hoping to use the VA program because of VA's practice of acquiring fewer foreclosed properties, veterans are obviously being hurt through no fault of their own.

2. CAR recommended that, especially in light of the strict underwriting criteria many lenders are now using, a veteran whose VA loan application has been rejected by a lender with prior VA approval to make guaranteed loans should be permitted to seek loan approval from another such lender without having to reapply and pay a second loan application fee.

Offhand, this suggestion is appealing from the standpoint of savings to the veteran attempting to negotiate the hurdles associated with securing a mortgage loan. However, it is doubtful that a second lender would process a loan application without receiving a fee to defray the cost of loan application procedures.

3. CAR proposed that the VA establish an appeals process for veterans who have been denied a VA home loan by an automatic lender on the basis of underwriting criteria.

This particular suggestion seems predicated on the assumption that the new underwriting criteria used by VA are inappropriate in many cases. When the criteria were changed, it was because too many veterans were being qualified for mortgages they could not afford. Naturally, this revelation came to public and congressional view when foreclosure rates began to escalate to record levels. The Legion offered its concurrence at the time that changes were in order, and that standards be developed which combined the flexibility of the old criteria with the risk abatement qualities of the debt to income criteria now in use by VA.

The CAR suggestion would respond to this problem by establishing an appeals process within the VA. To the extent that relief would become available from rigid application of the underwriting criteria, this would seem a good idea. However, it makes more sense

to solve the underlying problem than to establish a procedure offering potential relief from inappropriate loan qualification standards.

4. NAR stated its support for legislation to establish a direct appraisal system for properties for which VA-guaranteed home loans are sought. Under such a system, lenders would review and certify appraisals by VA-designated fee appraisors without the direct involvement of the VA and close loans on the basis of their own reviews, and the VA would establish criteria which lenders would have to meet in order to be able to process loans in this manner.

This proposal seems motivated by a desire to accelerate the process of purchasing a property, and allowing lenders to review and certify appraisals without VA involvement might indeed shorten the process. To the extent that interest rates can fluctuate frequently in a short time depending on market conditions, veterans could benefit if the period between loan application and closing were shortened. An expedited process could allow the veteran a greater measure of certainty as to anticipated interest rates.

On the other hand, the current requirement of awaiting an appraisal by an agent designated by VA with specific VA involvement in the process serves as a safeguard against the potential for abuse by potentially unscrupulous lenders. In the event an appraisal was compiled for the purpose of conforming to the seller's asking price, for example, it could cost the veteran a substantial amount above and beyond the actual value of the property purchased. For the lender under these circumstances a greater profit would be realized (larger loan amount would generate greater interest charges and larger amounts from points) unfairly at the veterans expense. For this reason, we view this particular suggestion with skepticism.

5A. NAHB and MBA proposed that the VA establish a program of VA guarantees for adjustable rate mortgages (ARM's), similar to the FHA program for ARM's under which the lender would make periodic adjustments in the effective rate of interest on a VA-guaranteed home loan, based on a national rate index.

The American Legion has repeatedly asserted its strong opposition to VA guaranty authority for adjustable rate mortgages (ARM's). To authorize VA-guaranteed ARM's based on the theory that a veteran's income will rise fast enough to keep up with upward adjustments in interest rates applied to mortgages, ignores the history of ARM foreclosure rates during the most recent recession. That history reveals that incomes did not rise fast enough to avert foreclosures. That history also reveals that the risks of upward surges in interest rates constitute an unacceptable gamble on market stability. On the other hand, interest rates could come down to levels below those at the time an ARM was issued. Unfortunately, this still requires a potentially disastrous leap of faith by the borrower.

B. MBA also recommends that VA ARM's be authorized without statutory ceilings on adjustments in the mortgage interest rate and be freely negotiable, but that the Administrator be empowered to set caps on adjustments as the VA gains experience with this type of mortgage.

The opposition to ARM's expressed in part (A) of this question applies here as well. An added feature in part (B) of this proposal deserves further elaboration, however. The American Legion views replacing the administratively set maximum interest rate with the negotiation of interest rates directly between borrowers and lenders as totally unacceptable.

Were interest rates negotiated instead of fixed at a maximum rate, veterans would be subject to comparatively higher rates. In that regard, we note the consistent view expressed by MBA over recent years that user fee increases should be prevented because higher fees will cause higher risks of default and foreclosure. The Legion has agreed with this reasoning in expressing its concern for the solvency of the Loan Guaranty Revolving Fund (LGRF).

We fail to see any difference, however, between the logic applied to user fee increases and negotiated interest rates. In both instances risk of default and foreclosure would likely be elevated along with an attendant threat to the solvency of LGRF. Therefore, we believe this proposal concedes too much in assuming that the market would work to lower the interest rate.

6. MBA proposed that, when a VA guaranteed home loan is in default:

A. The accrual of interest for purposes of the no-bid calculation should cease when the lender has decided and is prepared to foreclose, although interest should continue to accrue and be reimbursed by the VA as part of the lender's claim if the VA acquires the property.

This proposal is presumably related to the recommendation in question 1. Both seem designed to encourage VA to acquire foreclosed property instead of paying the guaranty. To the extent that the appeal of the VA home loan program to lenders would be enhanced, we are sympathetic to this recommendation.

After having said that, we do have some concern for the integrity of the LGRF, were this proposal implemented. Simply stated this proposal is also designed to lower the risk that VA might simply pay a guaranty by preventing VA from counting accrued interest in determining what action is in the best economic interest of the guaranty program. Though VA would be prevented from counting accrued interest in making its determination to acquire a foreclosed property, it would be required to pay the accrued interest whenever a decision is made to actually acquire a property. In the event that VA's ability to properly manage its home loan program assets were impaired, this proposal could have harmful effects on the solvency of the LGRF.

B. If a foreclosure is delayed due to circumstances beyond the control of the lender or the VA, such as bankruptcy, the lender should have the option to stop the accrual of interest for purposes of the no-bid calculation in return for forfeiting the right to be reimbursed for such interest if the VA acquires the property.

Without a thorough technical knowledge of the consequences of continuing interest accrual in circumstances beyond the control of the lender or the VA, it is difficult to comment on this particular proposal.

C. Interest that accrues during a period of VA-requested forbearance by a lender should not be taken into account in the no-bid calculation, but should continue to accrue and be reimbursed by the VA as part of the lender's claim if the VA acquires the property.

If it can be assumed that implementation of this proposal would further encourage lenders to exercise VA-requested forbearance, it probably should be adopted. This is because the veteran appearing to be capable of restoring his financial position sufficiently to avert foreclosure should be given the opportunity to try. If this assumption is false, however, our response to question 6(A) applies.

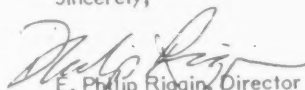
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7. NAR recommended that VA regional offices establish computerized "bulletin boards", similar to that in use by the San Francisco regional office, which provides real estate professionals access to information regarding VA property listings.

In the absence of a familiarity with the use of this concept in San Francisco, it is difficult to comment. Nevertheless, if the experience in San Francisco has meaningfully assisted the VA in marketing its inventory of foreclosed property, it should definitely be adopted nationwide. The Legion has repeatedly expressed concern for the slow pace of VA marketing efforts. Accelerated marketing would undoubtedly allow VA to recoup much of the assets expended in acquiring foreclosed property. The recoupment of as much of these assets as possible is critically important to sustaining the solvency of the LGRF.

As stated above, our organization has responded to these questions with the interests of veterans being considered above all other concerns. We know that you agree with those priorities, and we look forward to working with you this year to bolster the home loan program.

Sincerely,



E. Philip Riggins, Director
National Legislative Commission



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June 26, 1987

Honorable Alan Cranston, Chairman
Senate Veterans Affairs Committee
SR-414 Russell Senate Office Building
Washington, DC 20510-6375

Dear Chairman Cranston:

This letter will respond to the request, made in your absence at the June 17 hearing on the VA home loan program, by Jonathan Steinberg for our views on prospective legislation you are developing in conjunction with Ranking Minority Member Senator Frank Murkowski. Before proceeding to the issues at hand, there is one matter that should be cleared up for the record.

In my verbal remarks it was stated that it would be desirable for the Senate conferees on the budget resolution to recede to House conferees in the matter of presumed savings in Fiscal Year 1988 through further sales of VA's portfolio of home loans. Mr. Steinberg correctly pointed out that even if the Senate conferees prevailed, there was no requirement that reconciliation savings be affected in this way; only that savings amounting to a predetermined dollar level be affected. We, therefore, repeat our opposition to savings being achieved by continued home loan portfolio sales.

In the matter of the tentative legislation you and Senator Murkowski are considering, it must be said at the outset that without specific legislative language to evaluate, the Legion's comments must be made in general terms. As we understand from your opening statement, the measure you are considering will, "be designed to make refinancing of VA loans for the purpose of lowering the interest rate available to any veteran who had occupied the home in question, to reduce defaults by limiting refinancing to 90 percent of appraised property value when the purpose of refinancing is to obtain cash equity payouts, and to require approval of the creditworthiness of the buyer whenever a VA-guaranteed loan is assumed and generally provide for the original veteran's release from liability upon such an assumption." An additional possibility you are examining would, "...eliminate the provision limiting the term of a loan refinancing a VA-guaranteed loan to the term of the original loan."

As a general consideration, the Legion feels strongly that the VA home loan guaranty program should protect itself from excessive or undue exposure to liabilities that might threaten the integrity of the Loan Guaranty Revolving Fund (LGRF). Without a viable LGRF, it must be remembered, there can be no home loan program. As such we are inclined to be skeptical of proposals that might convert the program from a veterans benefit program to an investment tool for speculators in real estate.

After having said that, we are receptive to the proposal allowing refinancing of properties belonging to active duty military personnel or foreign service professionals even though these individuals, because of their careers, reside elsewhere. For these individuals, as well as others whose employment requires geographic transfer, allowing refinancing at lower interest rates could protect the LGRF from unnecessary risk of default or foreclosure. This is especially true in instances where the family of the transferee continues to reside in the refinanced dwelling.

Letter to Senator Alan Cranston
June 26, 1987 Page #2

On the other hand, it is a potentially different matter if the families of these individuals relocate with the property owner. Under these circumstances if another property is purchased and the refinanced property is intended to be rented, the risk to LGRF could be increased if the refinanced property fails to be rented for extended periods of time. In that regard, the cash outlay for two mortgages in the absence of offsetting rental income could bring about default and/or foreclosure however low the interest rate applied to the refinanced mortgage. The Legion, therefore, urges you to closely examine the safeguards that might be added to your legislation to prevent the greater risk to the LGRF when families of transferred individuals do not reside in the refinanced property.

A second initiative you are contemplating is intended to reduce defaults by limiting refinancing to 90 percent of appraised property value when the purpose of refinancing is to obtain cash equity payouts. We question the mechanism by which defaults would be reduced in actuality given normal increases in appraised property values. Under the circumstances, the refinanced monthly mortgage payments would almost always be larger than the original mortgage payment. Moreover, the purpose for refinancing to gain an equity payout may be for good cause but the same arrangement could be executed with a conventional lender, thereby, removing rather than extending potential VA liability for the mortgage.

A third provision would remove the liability of veterans upon the sale of an assumption. The Legion strongly supports this provision as outlined in our prepared statement for the June 17 hearing.

One additional related provision the Committee might wish to consider, however, would restore the veteran's eligibility to re-use the home loan program at the time the assumption is sold and the veteran's liability for the assumption is transferred to the buyer. If it can be assumed that property values will generally increase at a predictable rate and that interest rates will remain stable within three percentage points per year, we foresee little potential for abuse by speculators attempting to buy and sell VA-backed properties in rapid succession. If we can agree that it makes little sense to hold veterans perpetually liable for mortgages assumed by multiple buyers over the life of a mortgage, then holding the veterans eligibility to use the VA program a second time hostage to the duration of the original loan makes just as little sense.

A final proposal being considered seems related to the second. This would allow veterans to refinance a VA-backed mortgage for the full term of the original loan regardless of how long the original mortgage had been held prior to refinancing. If the reason for refinancing in this instance was to gain an equity payout, it seems reasonable to expect the conventional lending community to do the refinancing.

Mr. Chairman, we appreciate your follow-up questions as an opportunity to clarify our views and provide assistance in the development of your legislation before it is introduced. Should you have further questions on this or any other matter of interest to the nation's veterans, please feel free to contact this office again.

Sincerely,



Paul S. Egan, Deputy Director
National Legislative Commission

The American Legion



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July 15, 1987

Honorable Alan Cranston, Chairman
Senate Veterans' Affairs Committee
SR-414 Russell Senate Office Building
Washington, DC 20510-6375

Dear Chairman Cranston:

This letter will respond to your further questions arising from the June 17 hearing on the VA home loan program. In your July 9 communication, you ask for clarification of our statement concerning section 7 of S. 920 which seeks to transfer the responsibility for determining reasonable value of a property from the VA to approved lenders. In our statement, we supported such lender review of appraisals provided VA develops careful checks on the appraisal system to avoid the potential for unscrupulous practices.

The checks we have in mind are non-specific, but include limiting lender-approved appraisals to automatic lenders with whom the VA is familiar and would further require VA to spot check lender-approved appraisals on an irregularly scheduled basis several times each year.

Our concern in this matter was outlined in our April 22 letter to you in which we responded to several proposals raised at the VA budget hearings held by the Committee on February 18 and 19. To reiterate those concerns, as explained on page 3 of our April 22 letter responding to proposal number 4, "...the current requirement of awaiting an appraisal by an agent designated by VA with specific VA involvement in the process serves as a safeguard against the potential for abuse by potentially unscrupulous lenders. In the event an appraisal was compiled for the purpose of conforming to the seller's asking price, for example, it could cost the veteran a substantial amount above and beyond the actual value of the property purchased. For the lender under these circumstances a greater profit would be realized (larger loan amount would generate greater interest charges and larger amounts from points) unfairly at the veteran's expense. For this reason, we view this particular suggestion with skepticism."

Hopefully, this response satisfactorily addresses your follow-up question. Should you wish further clarification, please feel free to contact this office again.

Sincerely,

Paul S. Egan, Deputy Director
National Legislative Commission

WRITTEN QUESTIONS FROM CHAIRMAN CRANSTON TO THE VETERANS'
ADMINISTRATION AND THE RESPONSES

Question 1: The Administration has proposed the sale, on a non-recourse basis, of 10 percent of vendee loans in F.Y. 1987 and of all vendee loans beginning in F.Y. 1988. As the Chairman and I mentioned earlier, the VA attempted to sell \$84 million of vendee loans without recourse in April of this year, but withdrew the loans from sale after receiving bids for less than 10 percent of the lot and for prices ranging from only 15 to 65 percent of their value.

A. Does the VA intend to hold any other sales of vendee loans and will they be with or without recourse?

B. [IF SO]

I. When will such sales take place; will there be a regular schedule?

II. Will the loans be sold with or without recourse?

III. What amount of loans will be put up for sale?

C. Despite advertising efforts more extensive than usual by the V.A. prior to the April sale, no acceptable bids were made on the loans. What additional measures is the V.A. taking in order to achieve a better result in subsequent sales?

Answer: A. VA intends to hold further loan sales with recourse in FY 1987.

B. Sales with recourse are scheduled for July 7, 1987 and September 8, 1987. Plans call for offering approximately \$300 million in loans.

C. VA is exploring alternative marketing procedures for selling vendee loans without recourse, including the procurement of the services of a Financial Advisor to assist in structuring and marketing the loans offered for sale.

Question 2: In the V.A.'s May 19, 1987, Sale of Vendee Loans With Recourse, what dollar volume was put up for sale, what volume was sold, and for what percent of par were the loans sold?

Answer: On 5/19/87 \$268 million in loans were offered. \$248 million were sold and delivered at an average price of 89 percent of par.

Question 4: In its written statement, M.B.A. states that V.A. staffing resources could be conserved by shifting some of the steps required in loan processing from the VA to the lenders. MBA specifically suggests that additional authority for foreclosures should be delegated to lenders because this would not only reduce delays in the process, but would also allow VA staff to monitor and audit lender performance.

What is your position in giving lenders this kind of authority?

Answer: There are a number of factors which would create serious problems with the delegation of authority to determine foreclosure bids and make acquisition decisions. Considerations include the following issues:

- (1) Lenders may not be in a position to perform a comprehensive review of the appraisal, either because they don't have adequate appraisal staff or they don't have sufficient comparable sales data available, i.e., similar to data that is available to VA. This could result in an unreliable estimate of fair market value upon which the net value would be based. Under existing procedures, lenders order the pre-foreclosure appraisal which is subsequently forwarded to VA for review. MBA's proposal would obviate these procedures.
- (2) If the lender received the appraisal directly from the appraiser and was not satisfied with the value, the lender could order another appraisal and VA would be unaware that there was more than one pre-foreclosure appraisal performed.
- (3) If lenders received appraisals directly, they would have the opportunity to assure that the values resulted in amounts being specified so that VA would acquire the security. This could cause significant resale losses to VA.
- (4) It would be more difficult for VA to maintain quality control over fee appraisers. Timeliness standards on assignments could not be checked, nor would VA have an opportunity to review appraisals for accuracy before foreclosures are completed.
- (5) Since the net value determination affects the amount of any claim payable by VA and the resultant debt established against the veteran borrower, it may not be prudent to permit the holder to make this determination. Some courts have placed great importance on the involvement of VA in the liquidation appraisal process; especially as to when deficiencies are established against the veteran borrowers.
- (6) Lenders often do not have the Loan Guaranty Certificate on hand to alert them on cases with less than full guaranty. This could result in their miscalculation of the unguaranteed portion of the loan, and an amount will be specified when the property should not have been acquired.
- (7) In joint loan cases involving a veteran and a non-veteran, the holder may fail to properly limit VA's liability only to the veteran's portion of the loan.
- (8) In fire loss cases, holders may not take into consideration loss proceeds in determining the balance of the loan indebtedness, and this would affect whether or not an amount should be specified.
- (9) Where there is an indicated equity in the property, VA often requests postponement of the foreclosure sale to protect the veteran. Whether or not there is an equity is unknown until the appraisal is received.
- (10) At present, VA does not make its decision to refund a loan until an appraisal is received. It would be difficult for VA to determine whether refunding would be in the best interest of the Government and foreclosure stopped, unless the appraisal and other information is received by VA well before the scheduled sale date.

Question 6: You've stated that, through May of this year, 33.35 percent of FY 1987 sales of VA foreclosed properties were cash sales. What is the discount--if any--for such cash sales as compared to vendee loan sales?

Answer: VA field stations have been authorized to offer a maximum discount of 10 percent off term list prices (i.e., the list prices for offers conditioned on obtaining VA vendee loan financing). Since most cash sales are subject to offerors' obtaining outside financing, VA will also pay loan discount points in connection with these sales. However, the combination of loan discount points and sales price discount may not exceed 10 percent. Although some discounts occur up front when selling properties for cash, as opposed to properties sold with VA financing, these initial losses are offset by reductions in VA's future costs associated with repurchasing and servicing delinquent vendee loans. Current losses on cash sales and vendee loans are roughly equivalent.

Question 7: You've testified that the V.A. is part of an interagency task force to look into the development of an appraiser certification and review system. How long has the task force been working on this? What progress has it made?

Answer: The interagency task force was formed in response to recommendations contained in the House Government Operations report issued in September 1986 by the subcommittee chaired by Congressman Doug Barnard, Jr. (D-GA). The task force was formally established in March of this year and consists of representatives from the Federal Home Loan Bank Board (FHLBB), Federal Deposit Insurance Corporation (FDIC), Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA), National Credit Union Association (NCUA), Office of the Comptroller of the Currency (OCC), Federal Reserve Board (FRB), Department of Housing and Urban Development (HUD) and the VA.

The task force is interacting with a select committee on implementation which consists of representatives from eight major appraisal organizations. This committee has been meeting for over a year to set up a self-regulatory organization for appraisers and has drafted uniform standards of professional appraisal practice which they are recommending that appraisal organizations adopt. Congressman Barnard has indicated that he will soon complete work on his bill which would create a national review and certification structure for appraisers. Both the select committee and task force are awaiting Congressman Barnard's legislative proposal to see what he envisions as the framework for a certification and review system. Initial indications are that the bill would establish a three part regulatory structure which would include a federal oversight entity most likely involving representatives from this and other federal agencies directly concerned with the integrity of the appraisal process. The task force and select committee plan to continue to meet and work with this complex issue. The next meeting is tentatively scheduled in late June or early July.

Question 10: N.C.O.A. asserts, on page 2 of its statement, that the previous major loan portfolio sales ordered by O.M.B. depleted Loan Guaranty Revolving Fund income-producing assets that would have substantially mitigated the need for appropriations in amounts made by Congress over the last few years.

Do you agree with N.C.O.A.'s analysis?

Answer: No. The Veterans Administration has been selling vendee loans on a regular basis for the past 25 years. This policy has existed under Republican and Democratic administrations' and different management teams at VA and OMB. The proceeds of these sales are credited to the Loan Guaranty Revolving Fund and are immediately available to meet ongoing costs of program operations. In doing so VA recovers a major portion of the funds expended to acquire properties incident to foreclosure of guaranteed loans. In addition, if VA were to hold all loans in portfolio, a substantial number of Loan Guaranty Service employees would need to be diverted from current responsibilities in order to service these accounts.

We continue to believe that vendee loans should be sold soon after they are established. In FY 1988 VA will begin selling older defaulted vendee accounts in addition to our regular sales of current vendee loans. All loan sales will be sold without repurchase agreements. Therefore, VA's total loan portfolio will be substantially reduced in the next several years. This will result in lower VA servicing costs and increased receipts to the Loan Guaranty Revolving Fund.

Question 11: N.C.O.A. has urged that this committee exercise caution with respect to legislation authorizing lender approval of appraisals. Specifically, on page 7, they urge that such authority should be extended only to those who have been given "automatic lender" status and should be subject to strict V.A. review. Given that the V.A. already has experienced problems with its current appraisal process, which is supervised by the V.A., do you agree that such safeguards would be necessary to preserve the integrity of the appraisal process? If so, what safeguards do you plan to implement?

Answer: We strongly agree that proper safeguards as well as surveillance procedures are essential to the integrity of the program and the appraisal process, especially with a system of delegated appraisal review by lenders.

We have not established the procedures to be followed in implementing a system of delegated appraisal review by lenders. We do envision that lenders would have to apply and be required to meet criteria established by the Administrator, as they presently do in order to process loans on the automatic basis. Additionally, appraisals processed under the proposed delegation of authority would be subject to desk and field review by VA staff appraisers when the file is ultimately submitted to the VA, coincidental with the lender's request for evidence of loan guaranty, in order to determine the quality of the lender's performance and conformity with VA requirements.

We do not envision any reduction in current requirements for surveillance of fee basis appraiser performance regardless of the fact that a portion of the fee basis appraisers' work would be reviewed by the lender's review appraiser.

Question 13: The American Legion stated on Page 8 of its testimony that it understands that the shortage of DVB staffing is so severe in some VA regional offices that financial counseling is no longer available. Could you please comment on this assertion?

Answer: Presently, VA conducts a home counseling service in 23 cities to provide prospective home buying veterans advice and assistance in practical aspects of home buying and homeownership. Minority veterans comprised 8,930 of the 15,929 veterans counseled in FY 1986, reflecting the thrust of the program toward aiding minority veterans. In addition, VA loan service representatives offer financial counseling to delinquent borrowers when appropriate as part of our supplemental servicing effort.

We have received no reports indicating that field stations are unable to offer financial counseling due to staffing shortages.

Question 14: The National Association of Realtors state on Page 12 of their statement that they are concerned about veterans obtaining the proper release from liability when their loans are assumed. They further stated, that, although the current release process was relatively timely and easy, their experience with veteran-sellers has demonstrated that veterans were not aware of their option to apply for this release of liability.

B: Is the availability of this release uniformly made known to the veteran when he or she receives a Certificate of Reasonable Value?

Answer: No. Release from liability information is not provided to veterans with the issuance of the Certificate of Reasonable Value (CRV).

Veterans are advised of the need for a release of liability as early as their discharge from the service. Since 1973 certificates of eligibility have been automatically issued at discharge along with VA Pamphlets 26-4 and 26-71-1. In the pamphlets the liability situation is discussed and the veteran is advised to obtain a release from liability if the home is to be sold to a buyer who assumes the loan. If the veteran requests a certificate of eligibility directly from the VA this same information is provided. Additional advice is provided on the VA forms used in connection with home and mobile home loans processed under both the prior-approval and automatic guaranty procedures. The forms contain provisions for the veteran to certify as to his or her receipt and understanding of the notice of liability. Additional advice concerning release from liability is provided after a VA loan has been closed and reported to the VA. VA Form Letter 26-589 is sent to the veteran after evidence of guaranty has been issued to the lender. The letter provides yet another explanation of the veteran's obligations and liability to the Government and advises the veteran to obtain a release from liability in the event the VA loan is assumed. VA Form 26-8978, Rights of VA Loan Borrowers, is sent along with the letter and it also advises of the option to obtain a release from liability when selling a home on a loan assumption.

Due to the continuing concern that veterans may not have been heeding the advice concerning their liability to the Government when they obtain VA-guaranteed loans, VA Form 26-8995, Warning - Release of Liability, was developed in 1986. This form is applied to the veteran's certificate of eligibility by the VA office of jurisdiction when evidence of guaranty on the loan is issued and, in bold type, emphasizes to veterans that if their loan is foreclosed they may owe the Government money even if the property was sold. The form also emphasizes that before selling a property on an assumption they should contact the VA to apply for a release of liability which is not automatically given but must be applied for and approved by the VA. The certificate is returned to the veteran along with VA Form Letter 26-589 and VA Pamphlet 26-5, which also provide advice to veterans concerning the need for requesting a release from liability.

Question 15A: It is my understanding that the VA generally does not list any properties with brokers but is still considering a pilot program of listing properties in a few selected localities with a few brokers in order to test the value to the VA of the multiple listing system commonly used by Realtors. What is the status of this program?

Answer: VA lists all of its properties with local real estate brokers. However, this is done on an "open listing" basis -- where any broker may compete -- rather than on an exclusive listing basis -- where only one broker has the right to sell a particular property. The granting of an exclusive listing is the key requirement for entering properties in most Multiple Listing Services (MLS). A few VA field stations have been successful in negotiating with local Boards of Realtors to have their properties entered into MLS without exclusive listings, however.

VA intends to conduct a pilot program with private sector organizations for the management and disposition of 10 percent of VA's acquired property inventory. The pilot program would be conducted to determine the effectiveness, feasibility and desirability of contracting with commercial organizations to perform many of the property management and disposition functions currently performed by VA employees. Generally, such commercial organizations grant exclusive listings to selected local real estate brokers to market the properties, and those brokers then enter the properties in the local Multiple Listing Service (MLS). A work statement has been developed for the pilot program. We are presently awaiting an opinion from VA's General Counsel on whether the full cost of the pilot program may be funded from the Loan Guaranty Revolving Fund.

Question 16: You have indicated that you have not had great success in collecting from veterans their debts to the V.A. after the V.A. pays off the guarantee after foreclosure on a guaranteed loan.

A. How much did you collect in F.Y. 1986?

B. What was the total outstanding indebtedness to the V.A. resulting from foreclosures as of the end of F.Y. 1986?

Answer: During Fiscal Year 1986 the Veterans Administration collected \$25.6 million in veteran debt arising from the foreclosure of guaranteed loans.

As of September 30, 1986, there was approximately \$1 billion in total outstanding indebtedness to the VA as a result of foreclosure on guaranteed loans.

Question 16: Please provide data for FY 1986 and each of the preceding four fiscal years, separately and with respect to GI loans and vendee loans, showing:

(A)(i) The number of loans guaranteed for the purchase of a home, (ii) the number of loans guaranteed for the purchase of a manufactured home, (iii) the number of each type of loans made with and without a downpayment, (iv) the average purchase price for each type of loan made with and without a downpayment, and (v) the average amounts of the downpayments for each type of loan.

(B) (i) Veterans' total indebtedness to the VA, at the beginning and at the end of the year, arising out of the guaranteed loan terminations, (ii) the total amount of such debts collected from veterans, and (iii) the estimated costs incurred in making the collections.

(C) The number of properties acquired by the VA, with a breakdown showing the number resulting from the termination of VA-guaranteed loans and the number resulting from vendee loan terminations.

(D) The numbers and average amounts of refinancing loans guaranteed under paragraph (5) of section 1810(a) of title 38 and under paragraph (8) of that section.

Answer:

(A) The chart below contains the information requested on home and manufactured home loans:

	<u>FISCAL YEAR</u>				
	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
<u>Primary Home Loans*</u>					
Number	87,779	180,732	214,435	155,941	206,810
Down Payment	35,280	73,841	78,200	46,394	56,329
No Downpayment	52,499	106,891	136,235	109,547	150,481
<u>Avg. Purchase Price</u>					
Down Payment	\$77,088	\$79,947	\$87,118	\$84,629	\$91,038
No Downpayment	\$1,642	\$6,350	\$2,546	\$6,932	\$5,591
Avg Downpayment	\$ 4,757	\$ 4,921	\$ 3,878	\$ 3,235	\$ 3,034

* Excludes refinancing loans

	<u>FISCAL YEAR</u>				
	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
<u>Manufactured Home Loans</u>					
Number	10,509	13,502	13,110	8,916	6,022
Down Payment	8,023	9,046	6,885	4,460	2,763
No Downpayment	2,486	4,456	6,225	4,456	3,259
<u>Avg. Purchase Price</u>					
Down Payment	\$21,043	\$21,930	\$22,621	\$22,186	\$23,672
No Downpayment	19,858	20,662	20,816	21,002	21,551
Avg. Down Payment	\$742	\$752	\$490	\$397	\$428

(B) The following table shows the total amount of indebtedness outstanding at the end of each fiscal year, in addition to the amount collected from veterans (amounts in thousands).

Data on the cost incurred in making collections of veterans indebtedness is maintained for all accounts, without a separate breakdown by each specific subaccount such as Loan Guaranty debt.

	<u>FISCAL YEAR</u>					
	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Total						
Indebtedness						
Outstanding						
EOY	\$159,765	\$261,558	\$363,997	\$540,467	\$784,298	\$1,018,167
Indebtedness						
Collections		\$6,179	\$9,645	\$18,394	\$17,785	\$25,636

(C) The table below contains information on GI properties acquired for FY's 82-86:

	<u>FISCAL YEAR</u>				
	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Property					
Acquisitions	15,015	19,654	22,817	23,360	25,539
Properties					
Reacquired	1,641	1,757	1,460	2,015	4,360
Total	16,656	21,411	24,277	25,375	29,899

(D) The following table shows the number and average amounts of refinancing loan activity for FY's 82-86:

	<u>FISCAL YEAR</u>				
	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
<u>Number of Loans</u>					
Refinancing					
Loans	5,144	28,653	17,175	10,874	34,369
Interest Rate					
Reduction	1/	19,332	6,287	3,046	66,540
<u>Avg. Loan Amt</u>					
Refinancing					
Loans	\$61,833	\$68,158	\$67,228	\$69,200	\$73,099
Interest Rate					
Reduction	\$ --	\$69,062	\$69,932	\$69,301	\$74,358

1 / Pub. Law 96-385 authorized the VA to guarantee interest rate reduction refinancing loans. Due to high interest rates, there was virtually no activity during this year.

Question 17: You also indicated that for the first 7 months of F.Y. 1987, collections were 40 percent higher than for the same period last year. How do you account for this increase?

Answer: This increase is primarily attributable to amounts collected as a result of IRS offsets. VA referred approximately 13,700 accounts to the IRS and to date we have collected nearly \$6 million.

Question 20: The Houston advisory council indicated in its testimony that it has recommended to the V.A. that 30 loan specialists be brought into the Houston Regional Office for one month to help process loans, but that VA Central Office has responded by sending only 8 loan specialists for 2 weeks. Of the 2100 cases pending prior to the arrival of these 8 specialists, 1400 remain to be processed, according to the advisory council, and it estimates that it will take 5 to 6 months to complete processing. The advisory council believes that this is undermining the good will of the buying public and the sales force. What effect do you think that the delay in processing these loan is having?

Response: The absence of prompt service has an adverse effect on any sales oriented business. This is especially true in real estate sales since most of those attempting to buy a house need to move in quickly. If VA does not provide prompt service in processing offers to purchase, we risk losing the goodwill of both prospective purchasers and their sales brokers. This loss of goodwill among sales brokers can be especially detrimental because brokers may then begin showing future clients properties available from other sellers rather than VA properties. To be successful in selling real estate in any market, especially in the Houston area where a large number of foreclosed properties are available for sale, VA must provide service to potential buyers as good or better than any other large owner of real estate for sale.

With respect to Houston, we were able to send 8 loan underwriters to assist. The station informs us that after the first week of the task force's visit, that only 650 of the original 2100 purchase offers have not been processed. The station does not anticipate any problem in finishing these prior to June 30, 1987.

In addition, another change the Houston Regional Office is making to speedup the acceptance or rejection of purchase offers is to conduct public bid openings, a recommendation of the advisory council. The first of these will be held on July 2 and each week thereafter. There are several advantages to a public bid opening, but probably the most important is that anyone who makes an offer on a VA-owned property in Houston will now know immediately after the bids are opened whether their offer has been accepted or rejected by VA. The offers requiring seller financing by VA (vendee loan) will be accepted subject to approval of financing, which is similar to the procedure used in private sector real estate transactions. As a result of this new method, those purchasers who are unsuccessful will be free to look at other VA houses that are available for sale and generally with the same sales broker.

Question 25: In its testimony, the GAO states that "the extent of loan servicing varies widely among VA's regional offices."

A. What kinds of variations are there, and what factors contribute to the lack of uniformity?

B. What specific servicing steps are the regional offices required to take in the case of loan defaults?

C. How does the VA Central Office monitor regional office compliance with loan servicing standards, and what actions has it taken for failure to comply?

Answer:

A. VA takes a personalized approach to supplemental servicing of delinquent borrowers. This results in varying degrees of assistance dependent on the differing situation of each borrower. The initial emphasis in supplemental servicing is on determining whether the veteran has the ability to reinstate the account and, if so, working with the veteran and the lender to develop a reasonable repayment plan. This means of resolving loan defaults preserves the debtor-creditor relation between the borrower and lender, and avoids Government outlays for claims or property acquisition. If appropriate, other assistance options are pursued.

B. In a loan default case, the mortgage holder is responsible for contacting the borrower, determining the reason for the default, and making arrangements for repayment of the delinquency. If this cannot be accomplished by the time three installments are due and payable, the default must be reported to VA, together with the holder's explanation of the reason for the default and a summary of its servicing efforts. Upon receipt of such notice, VA takes an active role in working to protect the interests of the veteran borrower and the Government.

VA closely reviews the holder's servicing of the account and follows up by attempting to contact the borrower by letter, mailgram, telephone and/or personal visits to the property. Once contact has been established, based on the facts in the case, VA personnel may offer financial counseling and/or may intercede with the holder on behalf of the veteran in order to obtain forbearance or arrange a reasonable repayment schedule in appropriate cases. Also, VA is in contact with local agencies that provide assistance in finding jobs for borrowers, or aid with their daily subsistence needs or help in making direct mortgage payments. When appropriate, delinquent borrowers are referred to such agencies so that they may apply for benefits.

If no arrangements for reinstatement are made and if the holder files a Notice of Intention to Foreclose, VA requires that foreclosure procedures cannot be started for 30 days, during which period VA is afforded additional time to try to service the loan. Even after foreclosure has been initiated, supplemental servicing is continued in order to explore every possibility to assist the borrower.

Every case in which a holder has indicated it will not continue to extend forbearance is reviewed by our regional office personnel in order to consider refunding. In refunding cases, VA takes an assignment of the security instruments from the loan holder and the borrower is responsible for making payments to VA. The refunding review involves the evaluation of many factors, including the current reasonable value of the property, the amount of indebtedness, whether or not the veteran occupies the property, and the ability of the veteran to care for and maintain the property. In evaluating the veteran's income, we require that he or she presently have the ability to maintain the mortgage obligation or have the potential to resume regular payments within a reasonable time, and to ultimately repay the loan.

When neither the holder's servicing nor VA's supplemental servicing efforts result in reinstatement of the loan, VA considers approving the acceptance of a deed in lieu of foreclosure. If a deed is not feasible, VA may recommend that the veteran sell the property to realize any equity that has accumulated.

C. VA Central Office monitors field station servicing by review of reports on station workload and performance, e.g., number of personal supplemental servicing contacts, number of loans terminated without personal supplemental servicing, and number of defaults pending servicing. In addition, servicing is reviewed when cases are submitted to Central Office for periodic Quality Control analysis as well as for other purposes (e.g., claim adjustments). When inadequate servicing examples or patterns are found, they are brought to the attention of the field station Director.

Question 26: According to the GAO, the VA usually does not provide information on financial assistance options which may be available, unless a veteran requests such information.

A. Is the GAO correct?

B. If so, why doesn't the VA provide such information in every case?

Answer:

A. The GAO statement is partly correct in that while VA considers several possible financial assistance options, we do not necessarily discuss each option with the veteran.

B. VA normally provides information on financial assistance options which would be useful and appropriate in the veteran's situation. GAO discussed three specific financial assistance options in testimony before the House of Representatives Housing and Memorial Affairs Subcommittee on May 13, 1987. All three require comment:

Reducing the interest rate through refinancing. It should be noted that this is not a form of VA assistance, since it can only be done by the lender. With the lower interest rates in effect in 1986-87, many lenders actively encouraged current borrowers to refinance their loans in order to reduce their payments. However, this option is not usually available to delinquent borrowers because reamortization of the loan to include the arrearage will result in a new loan which substantially exceeds the value of the property. Such a loan will not be eligible for sale in the secondary market. Accordingly, encouraging delinquent borrowers to pursue this means of curing the default is not constructive.

Refunding. VA does not usually advise veterans that their loan can be refunded. However, refunding is considered in every case prior to the completion of foreclosure. When our supplemental servicing indicates the veteran will likely be able to resume payments and maintain the mortgage obligation, and the lender refuses to extend further forbearance or accept a repayment plan, the veteran is provided with this option.

Assisting the veteran to sell the property. VA does provide such assistance, although not in the form described by GAO. It has been a longstanding VA supplemental servicing policy to encourage borrowers who do not have the ability to reinstate their loans to sell their property. If the property is worth less than the loan balance, VA can facilitate a sale by paying the lender a compromise claim for the difference between the proceeds of the sale and the loan balance. VA does require that the selling price represent the fair market value of the property, and that the veteran agree that he or she remains liable to VA for the amount of the claim paid. Information on this option has been provided to lenders.

Question 27: In your written statement, you assert that the loan holder has the primary responsibility to determine whether a repayment plan or continued forbearance is acceptable.

A. Since it is in the best interest of both the lender and the Loan Guaranty Program to prevent a loan in default from reaching the foreclosure stage, to what extent does the VA work with the lender to coordinate financial counseling for veterans in default?

B. What can and does the VA do to lenders who refuse to cooperate in this area or who simply provide inadequate loan servicing?

C. Depending on list of sanctions, how often does the VA apply the most severe sanction that can be applied?

Answer:

A. VA is actively involved in contacting lenders, as well as veterans, to coordinate counseling and servicing efforts to prevent foreclosure. For example, a review of all loan defaults which cured during the second quarter of FY 1987 shows VA contacts with servicers in 21 percent of the cases. The percentage of contacts was greatest for the most serious defaults, i.e., 46 percent of the defaults which cured after commencement of termination action showed VA/servicer contact.

B. All lender servicing reports are reviewed by VA and if servicing appears to be inadequate, the lender may be contacted and requested to take the necessary servicing actions and file an updated report. Lenders are also notified that claims filed under loan guaranty may be adjusted if failure to comply with VA requirements has increased the liability of the Government. The Administrator also has the authority (under 38 USC 1804(d)) to refuse to guarantee loans made by a lender which fails to demonstrate proper ability to service loans adequately and to bar such a lender from acquiring guaranteed loans. VA does not, however, have the authority to require a lender to extend forbearance or to accept a repayment plan on a particular loan.

C. It has not been necessary to apply suspension due to inadequate servicing.

Question 29: Under section 7 of S. 920, which would authorize the Administrator to permit certain lenders to determine the reasonable value of a property which would secure a VA-guaranteed loan, is it intended that such a lender would issue the certificate of reasonable value?

Answer: No, lenders which are delegated authority by the Administrator to review appraisals would not be authorized to issue Certificates of Reasonable value or any other document which may be construed to be a Certificate of Reasonable Value. In HUD's Direct Endorsement Program lenders do not issue Conditional Commitments and our procedure would be similar in that respect. We envision that lenders would notify the veteran of the valuation determination by whatever means they determine appropriate, such as by letter or by personal telephone call.

Question 30: Please describe the circumstances under which a veteran is eligible for a refinancing loan (A) under paragraph (5) of section 1810(a) of title 38, and (B) under paragraph (8) of that section. To what extent do these two provisions overlap with respect to the purpose and amounts for which refinancing loans may be guaranteed?

Answer: Under paragraph (5) of section 1810(a) of title 38, a veteran with sufficient unused home loan entitlement may obtain a loan to refinance an existing mortgage loan. The loan being refinanced may be a VA-guaranteed loan, conventional or FHA loan. The refinancing loan must be on a dwelling owned and occupied by the veteran as the veteran's home. The loan may be for any amount up to the reasonable value of the property.

Under paragraph (8) of section 1810(a) of title 38, a veteran may obtain a refinancing loan without regard to unused entitlement for a limited purpose. This special purpose refinancing authority can assist veterans who obtained VA-guaranteed home loans during periods of high interest rates. Loans under this authority are referred to as interest rate reduction refinancing loans. There are four special requirements: (a) the interest rate on the new loan must be less than the interest rate on the loan being refinanced; (b) the loan must be secured by the same dwelling, which must be owned and occupied by the veteran as the veteran's home; (c) the amount of the new loan may not exceed the outstanding balance on the old loan plus closing costs and a reasonable discount, and (d) the term of the loan may not exceed the term of the loan being refinanced.

There is no overlap between these two provisions with respect to purpose and amounts for which these loans may be guaranteed. Under paragraph (5) of section 1810(a), the loan proceeds may be used for any purpose and the loan may be for any amount up to the reasonable value of the property. Under paragraph (8) of section 1810(a) the loan is limited to the balance due on the loan being refinanced, closing costs and discount points. There will be no additional proceeds available for any purpose other than the interest rate reduction refinancing loan itself.

WRITTEN QUESTIONS FROM SENATOR DeCONCINI TO THE VETERANS'
ADMINISTRATION AND THE RESPONSES

Question: Because of the inexperience of most lending institutions in dealing with tribal Governments, and their disinclination to finance housing that has marketability restrictions, these lenders have not made loans where the alienation of the property is restricted and mortgage insurance is not available.

In 1983, Section 422 of the Housing and Urban Renewal Act authorized the Secretary of HUD to insure single family properties located on Indian lands where either the tribe or the individual Indian is the mortgagor.

In June 1986, HUD issued a final rule to implement this change in law. I understand that HUD officials are now training field officers on the implementation of the rule.

Is the Veterans Administration in the process of following HUD's lead on the question of insuring mortgages for Indians living on land held in trust?

If yes, what is the timetable; If no, what is the reason - is there some legal impediment, or has the decision not been made?

Answer: VA has been and continues to be committed to assisting Indian veterans to obtain home loans wherever possible. The major obstacles are the title and lien problems which arise from the tribal form of land ownership.

38 U.S.C. 1803(d)(3) requires that a VA guaranteed loan be secured by a first lien on the realty and since the inception of the program VA has interpreted this as requiring also that the veteran will own the property to be purchased. An exception has been made for Indian tribal areas where a BIA (Bureau of Indian Affairs) approved leasehold form has been developed. Even so, tribal and BIA approvals of an individual leasehold can be difficult to obtain, and private lenders have been reluctant to become involved in real estate transactions in which loan foreclosure and liquidation problems might arise.

VA has no legal authority comparable to the authority granted HUD by section 422 of the Housing and Urban-Rural Recovery Act, Pub. L. 98-181. That section authorizes HUD to insure mortgages on Indian Reservations without regard to marketability of title or other limitations such as the first lien requirement. There are also provisions for the tribe or an individual Indian to pledge tribal income, or a share thereof, for loans insured under that section. VA has no comparable authority, or specific program for the Indian Reservations.

Because private lenders are reluctant to make loans for properties on Indian Reservations and because the VA has no authority to make direct loans for anything other than specially adapted housing we have in the past suggested that tribal councils develop direct lending programs for their members. Under such a program a tribe could establish a revolving fund from which it would make home loans to its members. The VA would then issue the regular VA guaranty to the tribal council as the lender.

Department of Veterans
Benefits

Washington D.C. 20420



Veterans
Administration

SEP 17 1987

SEP 15 1987

In Reply Refer To: 264

Honorable Frank H. Murkowski
Ranking Minority Member
Committee on Veterans' Affairs
United States Senate
Washington, D.C. 20510

Dear Senator Murkowski:

This is in reply to your letter of August 17, 1987, on behalf of Senator Simpson, in which you forwarded questions prepared for the June 17, 1987 hearing on the Loan Guaranty Program.

Senator Simpson's first question was whether the VA will commit to a waiver of indebtedness in every instance in Rawhide and Horizon Subdivisions in Campbell County, Wyoming and whether VA will commit to restoration of entitlement in every situation in these subdivisions.

We are very concerned about VA borrowers who have been displaced because of the presence of methane and hydrogen sulfide gases in these subdivisions. However, we are unable to commit to debt relief assistance for homeowners in the Rawhide and Horizon Subdivisions at this time. In May 1987, VA announced that we would consider waiver of any veteran's indebtedness to the Government and restoration of loan guaranty entitlement in the event a GI loan was terminated because the property was uninhabitable and had to be evacuated. On May 29, 1987, the Campbell County Commissioners ordered the evacuation of Rawhide Village. VA subsequently learned on June 25, 1987, that the Centers for Disease Control had issued a report indicating that there are limited health and safety threats to residents at Rawhide Village. As a result of this report, a Presidential disaster declaration was not issued.

In view of this development, we decided to delay implementation of our debt relief plans until a firm determination was made regarding the habitability of the properties involved.

On August 3, 1987, VA was advised that additional tests had been conducted in Rawhide Village to measure the extent and toxicity of the gas seepage. Based on the results of these tests, the State appealed the decision denying its request for Federal disaster assistance. We were also informed that the Campbell County Commissioners had decided to rescind their order for mandatory evacuation of Rawhide Village.

"America is #1—Thanks to our Veterans"

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Honorable Frank H. Murkowski

On August 13, 1987, a delegation from Wyoming presented information regarding the tests conducted in Rawhide Village in a hearing at the Offices of the Federal Emergency Management Agency (FEMA) in Washington, D.C. A decision on the State's appeal for Federal disaster assistance is expected shortly.

If a final determination is made that the area is uninhabitable, we will resume debt relief measures for VA borrowers.

Senator Simpson also expressed concern about VA's plans to consider selling VA-owned properties on a no-downpayment basis to veterans displaced from Rawhide Village.

Our Denver office began offering to sell VA-owned properties in the Gillette area to evacuated veteran homeowners following the Campbell County Commissioner's resolution of May 29, 1987. Several purchase offers were subsequently received and approved. Sales to those individuals have not been finalized because the issue of their financial obligations for properties in Rawhide Village is not yet resolved. However, veteran homeowners whose offers to purchase VA-owned properties have been approved are being permitted to occupy those homes rent-free until that issue can be satisfactorily resolved.

Senator Simpson points out that the FHA has made a commitment to accept deeds in lieu of foreclosures on homes in the Rawhide Subdivision and queries whether the VA is willing and able to do likewise.

If a firm determination is made that the Rawhide Village Subdivision is not habitable, VA intends to contact GI loan holders and encourage them to accept deeds in lieu of foreclosure from evacuated homeowners with GI loans. However, the provision of 38 U.S.C. 1816(c)(8) would preclude VA from accepting conveyance of any such property from the loan holder if its net value did not exceed the total loan indebtedness less the amount of our guaranty.

In his comments, Senator Simpson points out that the residents of Horizon Subdivision, as well as those of Rawhide Village have been ordered to evacuate. As we are not aware of any VA involvement in the Horizon Subdivision, we are presently unable to determine that the VA policy established for Rawhide Village will apply in Horizon as well.

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Honorable Frank H. Murkowski

Addressing another issue of the VA Home Loan Guaranty Program, Senator Simpson expresses concern over VA's residual income requirements.

In August 1986, representatives of our field stations and Central Office met to review the existing underwriting standards for VA guaranteed loans. As a result of that meeting two changes were made to VA's previous credit standards. The use of a debt-to-income ratio was instituted and the guidelines for a veteran's residual income were set by Central Office instead of each field station.

When the residual income method was first established in 1959, our field stations were given the responsibility to develop the minimum residual income needed in their areas to support the veteran and family after payment of the mortgage. Broad guidelines for the development of such data were provided. It was found that many stations were using out-of-date data that was not based on any recognized statistical indicators. It is now felt that better indicators must be used and that Central Office participation in the setting and monitoring of the guidelines is necessary. The Consumer Expenditure Survey, prepared by the Department of Labor's Bureau of Labor Statistics, was found to be the best, if not only, source of such data. The Survey provides data for four regions of the country: South, Northeast, Midwest and West. The Survey specifies which States make up each region and as you know, the State of Wyoming was included in the Western region by the Department of Labor. We did not vary from their regional designations.

The figures contained in the Consumer Expenditure Survey were calculated using a weighted procedure. This method establishes a correlation between the sample of interviewed households and the general population. Regions are divided into different size areas based upon population size. Therefore a large population area or an area with an extremely high cost of living does not overwhelm other areas within the same region. The new guidelines for residual income are generally a 20 percent increase in the income requirements previously used by the field stations. In some instances there was a decrease in a station's residual income requirement.

One of the key differences among the regional indicators now employed is the cost of housing in the respective regions. The VA loan guarantee residual income calculation does not include

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Honorable Frank H. Murkowski

these costs in determining the regional cost-of-living standards. Rather, the VA investigates the cost of housing on a case-by-case basis prior to calculating the cost of living standards. Cost of housing aside, there do not appear to be major differences in the costs of other goods and services within the regions. Cost differences were also looked at for urban and rural areas. The data available did not indicate any major differences, other than, as stated, the cost of housing.

When the revised credit standards were published it was emphasized that the credit standards continue to be a guide and failure to meet one or more of the criteria is not reason for automatic disapproval of a loan. Instead it requires a higher level review. It was also stated that field stations may request deviations for the requirements, if supported by detailed justifications based on recognized economic data. We have not received a request for deviation from our Denver Regional Office, which serves the State of Wyoming.

This past August we reconvened to review the revised credit standards adopted last summer and study their effects. We continue to examine a wide variety of factors, including available State data. We are still unable to find reliable data on which to base any changes to the credit standards system presently in use.

At present, we are considering a two-tiered residual income method based on loan amounts. For example, loans for \$60,000 or more would continue to have residual income guidelines based on the present criteria. Loans for less than \$60,000 would be reviewed based on lower residual income guidelines.

We expect to publish the revised residual income guidelines in the near future. Your interest in the Loan Guaranty Program is appreciated. A similar response has been provided to Senator Simpson.

Sincerely yours,



R. J. VOGEL
Chief Benefits Director